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Université Libre de Bruxelles
Institut d'Etudes
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University of Warwick
Politics and International
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Erasmus Mundus Joint Doctorate
Globalization, the EU and
Multilateralism

The Evolving Governance Structure of the European Union: Asymmetric, but not Disembedded

Immanent Possibilities in the Social and Environmental Policy Domains

by

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A thesis submitted in partial fulfilment of the requirements for the degree of
Doctor of Philosophy in Politics and International Studies

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List of Abbreviations:

BIS – Bank for International Settlements

DG-Clima – Directorate General for Climate Action

DG ECOFIN – Economic and Financial Affairs

DG-ESAI – Directorate General for Employment, Social Affairs and Inclusion

EAPN – European Anti-Poverty Network

EBA – European Banking Authority

EC – European Commission

ECC – European Economic Community

ECJ – European Court of Justice

ECSC - European Coal and Steel Community

EFAMA - European Fund and Asset Management Association

EIOPA - European Insurance and Occupational Pensions Authority

EMU – Economic and Monetary Union

EP – European Parliament

ESA – European Supervisory Authorities

ESMA - European Securities and Markets Authority

ESRB - European Systemic Risk Board

ETUC – European Trade Union Confederation

EU – European Union

FSAP - Financial Services Action Plan

GATT – General Agreement on Tariffs and Trade

GDP – Gross Domestic Product

ICN – International Competition Network

IO – International Organisations

IPE – International Political Economy

IR – International Relations

MLG – Multi-Level Governance

NGO – Non-Governmental Organisation

NRP - National Reform Programmes

OMC – Open Method of Coordination

PIIGS - Portugal, Ireland, Italy, Greece and Spain

RWA – Risk-Weighted-Assets

SGP – Stability and Growth Pact

TEU – Treaty on the European Union

TGT – The Great Transformation

TFEU – Treaty on the Functioning of the European Union

UNICE – Union of Industrial and Employers’ Confederation of Europe

VoC –Varieties of Capitalism

WTO – World Trade Organisation

Abstract:

The subject of inquiry of my research is the socio-economic restructuring of the European Union (EU). The project provides an innovative interdisciplinary intervention that uses the canonical texts of Karl Polanyi and the insights from the burgeoning Polanyian scholarship in an attempt to explain the morphology of the contradictions that underpin the EU integration project. The starting point of analysis lies in the recent debates instigated by the critical turn in the EU studies scholarship that tries to shift the focus from the causes of the EU integration to its consequences. My original contribution to the scholarship consists of providing a Polanyian critique of the EU political economy. The ever-growing Polanyian scholarship proves a formidable alternative to the already established Gramscian and Marxist routes of critical inquiry. Based on a close reading of Polanyi and the wider Polanyian scholarship the thesis proposes a new take on the established practice of using Polanyi's concept of dis/embeddedness as an all-or-nothing phenomenon and instead suggests conceptualising the social reality in terms of tendencies. The lenses through which I evaluate the EU predicament consist of the following conceptual vocabulary: a) dis/embedding tendencies b) habitation and improvement, and c) the rate of change.

The main puzzle that the project endeavours to explain is the interplay between the disembedding and the embedding tendencies in the EU. The examination of the disembedding tendency consists of excavating the self-regulating market logic inscribed into the EU edifice by analysing the development across three policy fields: competition, finance and education. The findings suggest that the disembedding tendency is manifested not only in the monetary orthodoxy inscribed in the Economic and Monetary Union since the Maastricht Treaty and further reified during the Great Recession, but also in the privatisation, depoliticisation and commodification dynamics evident in the three policy domains discussed in the thesis. Given Polanyi's observation that the embedding tendency is immanent to the disembedding one, the second empirical endeavour consists of investigating the surge of socio-environmental measures. Notwithstanding the institutional divergences between the social and environmental policy domains, the appraisal of the policy output demonstrates that the embedding tendency is characterised by the same marketisation dynamic that we see in the disembedding one. This thesis recuperates a critical Polanyian reading that highlights the disruptive dialectics between the disembedding tendency and the seemingly protective measures predicated on fictitious commodification. In addition to unearthing the structural bias towards the market form that constitutes the two tendencies, this project develops a normative critique of the market society, based on Polanyi's ferocious appraisal of neoclassical economics' formal understanding of the economy, by problematising the extension of the economising rationality within previously unaffected spheres.

Key Words: Polanyi, disembedded, European Union, commodification, neoliberalism, political economy.

Chapter 1 Introduction

‘If you ask me if I am an optimist, I would have to say no. I am not one of those old-fashioned communists who says, with that old tragi-comic Marxist satisfaction, at least history is on our side. No. If anything, the train of history is hurtling towards a precipice. The task of the leftist thinker today is, to quote Walter Benjamin, not to ride the train of history, but to pull the brake’

(Slavoj Žižek, 2010a)

As a person who grew up in a society undergoing a socio-economic transition from communism to democratic capitalism, where Marxist political thought was vilified, I find it puzzling how my dissertation undertaking acquired a critical disposition. In the post-communist formative years of mine I was socialised into believing that capitalism is the best and the only natural way forward. This sentiment persisted well into my senior year of undergraduate studies, when for the first time as a student of Political Science I came across a different set of questions raised by critical theory. Ever since, the ontic question of why people died to the fetish of the state was replaced by a new dilemma of why great injustices continue to persist under the auspices of the market. In a broadest sense, this thesis is informed by a set of questions posed by the critical theory scholarship. Its inquiry is a variation of the main imperative of critical thought in that it attempts to understand the social antagonisms that constitute the European Union (EU).

The subject of inquiry of this thesis is the socio-economic transformation of the EU. This thesis is concerned with the morphology of the contradictions that underpin the EU integration project. Particularly, it aims to give account of the interplay between the market-making and the market-correcting dynamics. In doing so, it deploys a Polanyian theoretical perspective and deploys a dialectical mode of reasoning that

unpacks the complex interaction between the self-regulating market principle and the socio-environmental protection principle.

It is in the aftermath of the biggest man-made destruction in history that the integration project by the name European Union started to unfold on the European continent in the mid-twentieth century. The founding fathers could have trouble predicting the transformative potential of their undertaking. Right from its inception it attracted the attention of scholars from both Comparative Politics and International Relations. In grappling to understand the nature of the emerging beast, be it a civilian power (Telò, 2006), regulatory state (Majone, 1999), region-state (Schmidt, 2009), empire by example (Zielonka, 2008), imagined community (McNamara, 2010), post-national inter-discursive public sphere (Nanz, 2006), multi-level governance entity (Marks *et al.*, 1996) so forth, the academic community appears divided on the question whether the EU's *sui generis* nature necessitates the establishment of a distinct discipline or whether the established canons of political science are suitable for the subject matter (Hix and Høyland, 2011; Cini, 2007; Rosamond, 2000; Hix, 1999). This project acknowledges that the uniqueness of the EU requires at least a paradigmatic shift within the existing disciplines of International Relations (IR) and Comparative Politics (CP). Undoubtedly, the EU project at the same time: a) shook the traditional analytical framework used by CP for assessing the political systems of nation states because of the drastically altered domestic political game, i.e. the transformation from a hierarchical ordering principles to an implicated governance structure (Rosenau and Czempiel, 1992; Rosenau, 1995; Dingwerth and Pattberg, 2006),¹ and b) challenged the traditional categories of IR, like sovereignty and

¹ Global governance is understood in an encompassing way which refers to systems of rule at all levels of human activity that presupposes authoritative relations between the governed and the governors (Rosenau, 1995; Haufler, 2003). Recent decades have witnessed multiple shifts in governance whereby

autonomy that for a long time were IR's foremost assumptions (Stoker, 1998; Weiss, 2000).

From its inception, the research agenda of EU studies has been dominated by numerous issues starting from the obsession of integration and grand bargaining, continuing with the preoccupation with the day-to-day policy-making processes within the governance turn, followed by reorientation towards ideas, norms, and identities introduced with the constructivist turn (Rosamond, 2000). Each stream of research has contributed immensely towards the mapping out of social relations that underpin the EU phenomenon. Nonetheless, it was not until the critical outlook of the Gramscian formulations that the focus truly shifted towards the implications of the EU economic order for society. Owning its revival in International Relations to the works of Cox (1987; 1996) grounded in the critical historico-dialectic theory, the recent Gramscian debates within the EU scholarship attempt to shift the focus from the causes of integration to its consequences.² Inspired by the Gill's (1995; 1998; 2003; 2012) theory of new-constitutionalism that provides a bold analysis of the current global socio-economic transformations driven by the restructuring of the global financial architecture, a number of scholars adopted a similar reading of the transformations unfolding in the EU, most vocal of whom are Harmes (2006), van Apeldoorn, Drahokoupil and Horn (2008), Höpner and Schäfer (2010a; 2010b), Horn (2012), Bieling (2011), Overbeek and van Apeldoorn (2012), Overbeek (2012), Bohle and Greskovits (2007). They seek to explain the asymmetric governance structure of the EU in terms of the current predicament of capitalism and its neoliberal agenda.

the state has been displaced as the sole actor: upwards towards the regional and global levels, downwards towards the local and sideways towards non-state actors (Haufler, 2003; Weiss 2000). The lack of an overarching hierarchical authority does not presuppose that the world order is a mere horizontal ordering with no dominant social forces.

² I do not want to deny the great influence of other critical thinkers who belong to the Marxist school of thought.

The explanatory power of their alternative vision lies in their attempt to uncover the hidden power configuration that drives the EU agenda. Challenging the arguments of functionalists who obfuscate the antagonistic dynamic within the EU project by creating an aura of inevitability and functional necessity, these critical accounts have tried to scrutinise the deliberate institutional choice inscribed in the EU's constitutional set-up. The merits of the critical approaches is evident in their attempts to present the evolution of the EU in a more politically contested and less technical manner by adopting modified version of the Gramscian concepts such as the historic block, the social forces, the common sense and the dialectics between the base and the superstructure.

1.1. Research Problem

This dissertation is inspired by, positions itself in, and is sympathetic to the recent critical turn in the literature on the EU. It should be seen as a complementary exercise to the existing efforts aimed at examining the socio-economic implications of the integration project. This research project aims to enrich the vast literature on the EU by providing a Polanyian analysis of the EU structure. The underlying puzzle and the object of inquiry of this enterprise is the question of whether the EU structure is disembedded as understood by Karl Polanyi (1944). Given that the concept of disembeddedness has gained traction within the scholarship, which often presents it as an all-or-nothing phenomenon, I find the need for conceptual clarification pertinent. I approach the subject of the EU socio-economic predicament by formulating four auxiliary questions:

- a) What constitutes a disembedded economy?

- b) Do we see a heightened intensification of the disembedding tendency especially in the aftermath of the Great Recession?³
- c) Do the existing social and environmental legislative measures at the EU level represent an embedded neoliberalism?
- d) What is the interplay between the limited social and environmental protection and the efforts to complete the Single Market along neoliberal lines?

1.2. Positioning of Thesis in Literature

In order to understand why this project finds the EU dis/embeddedness a compelling question that deserves in-depth attention, it is necessary to take stock of the existing scholarship. In an attempt to describe the socio-economic transformations of the European Union (EU), increasing number of scholars have made reference to Polanyi's double-movement thesis. While Polanyi is fairly prominent among sociologists, anthropologists and critical political economists, recourse to his work has become more common among the EU studies literature. As a reservoir of provocative arguments, Polanyi has been increasingly referenced not only in the academic circles and the media (Dale, 2012), but even at the recent World Economic Forum in Davos in 2012. Polanyi's heavily historicised narrative of *laissez-faire* capitalism is reminiscent of the current neoliberal predicament; hence, making the concepts of disembedded and double-movement the new catchphrases.

A critical appraisal of the literature informs us that Polanyi has been used in two opposite ways when explaining the EU integration project. On the one hand we have a group of scholars rooted in the critical economy tradition which renders the EU

³ The Great Recession is a commonly accepted term that denotes the great economic decline instigated by the recent supreme-mortgage crisis in the US that erupted in 2007.

disembedded by looking at the evidence of the intensified marketisation of social relations. On the other hand, scholars, who belong to what can be characterised as mainstream EU studies, have identified a re-embedding tendency by bringing forward the instances of social and environmental protection.

Hettne (1997; 2002) is among the first scholars in the EU studies literature who inspired by Polanyi asserted that the EU regionalism represents a form of counter-movement that embeds the global economy within a regional block. He identified the neo-mercantilist transnational protectionism as the force within the new regionalism that is capable of resisting the dictates of the unregulated global economy. Caporaso and Tarrow (2009) and Copeland (2009), although starting from different premises have reached a similar conclusion about the emergence of a trend of re-embeddedness at the supranational level by examining the recent European Court of Justice (ECJ) case law and the EU social policy respectively. The ECJ has been declared by Tarrow and Caporaso (2009) as an agent who brought Polanyi to Brussels, by extending social rights not only to the workers but their families as well. They adopt an overly optimistic tone and identify decommodifying tendencies in the recent ECJ case law. Similarly, Copeland (2009) in trying to account for the surge in social protection in the 1990s and with the Lisbon process, he declares the emergence of a counter-movement and the Third Great Transformation. I have to make one semantic clarification over the term protectionism. Polanyi (1944) used the term in a different way than it is used in common parlance generally referring to trade matters. Herein, protectionism refers not to trade protectionism, but to those measures aimed at defending people's livelihoods and nature from the vicissitudes of the market (Polanyi: 1944).

What the above scholars have in common is an Esping-Andersenian (1990) understanding of social policy which considers the policy measures that increase the welfare of the labour force to be decommodifying in nature. This thesis salutes their effort of bringing forward the instances that strengthen the social dimension of the integration process, yet it endeavours not to overstate their potential in embedding the economy. This thesis follows Lacher's (1999; 2007), Watson's (2014a), Burawoy's (2003; 2010) and Dale's (2010; 2012) interpretations of Polanyi that puts emphasis on the limit of the progressive interpretation of the social protection when it occurs in the context of continued commodification. Dale (2010: 233) has rightly noted that a return of Polanyi to Brussels would require the realisation of his 'maximum programme – the wholesale decommodification'.

Somewhat different usage of Polanyi (1944) is evident in the critical political economy literature. In addition to the well-entrenched Gramscian and Marxist routes to a critical narrative, scholars have found alternative inspiration in Polanyi when providing a critical discernment of the EU edifice. Namely, a number of critical scholars have increasingly resorted to the works of Polanyi, whose conceptual apparatus opens a venue for enriching their analysis with a normative commitment. One can discern two lines of arguments within the critical political economy literature which deploys Polanyi's conceptual apparatus: the new-constitutionalism view and the nuanced critical political economy account. Gill's (1995; 1998; 2012) and Harmes' (2001; 2006; 2012) rendering of the EU as unequivocally disembodied belongs to the former category, while van Apeldoorn, Drahokoupil and Horn's (2008), Bohle and Greskovits's (2007) and Overbeek and van Apeldoorn's (2012) idea of embedded neoliberalism represents the latter view.

This thesis shares Gill's (1995) and Harmes' (2006) view that the idea of the self-regulating market is deeply ingrained into the EU project and claims that the recent economic crisis constitutionalised even further the neoliberal creed. This thesis takes it upon itself to further their efforts of trying to problematise the spread of the disciplinary neoliberalism discourse, which is constituted by legal and judicial practices that further the interest of capital. In his disquisition on the emergence of the market society, Polanyi (1944) himself used the term new-constitutionalism in a way akin to Gill's conceptual formulation. Long before Gill (1995) popularised the concept of new-constitutionalism, Polanyi (1944: 234) used the term to describe the legal measures adopted during *laissez-faire* capitalism, which were 'used to separate the people from the power over their own economic life'. In contrast to the old constitutional safeguards from the seventeenth century that were securing the market from the interference from the Crown, the new-constitutionalism that emerged in the nineteenth century relied on the insulation of the market from democratic control. Within the market society the people and not exclusively the Crown were identified as the enemy against which capital required legal protection.

This thesis deploys the concept of new-constitutionalism as understood by Polanyi (1944) and Gill (1995) when it analyses the intensification of the disembedding tendency within the EU policy framework. This concept is particularly relevant when trying to make sense of the increasing depoliticisation of the EU decision-making process that can be identified across many policy fields. The trend of distancing the electorate from key decisions that have direct redistributive consequences on their life is one more sign post on the neoliberal road that the EU has chosen.

Although, this thesis accepts the premise of Gill's (1995) and Harmes' (2006) argument, it argues that their hyperbolic conclusions deserve thorough inspection as there is a tendency to engage with the conceptual apparatus of Polanyi in an expedient manner. Harmes (2006) reaches his conclusion about the existence of disembedded federalism within the EU by neglecting the existing efforts of securing social cohesion and environmental sustainability that impairs the full functioning of the self-regulating market. Even though the socio-environmental dimensions do not enjoy the same status as the economic within the EU integration project, the past decades have witnessed an increased activity in the social and environmental policy domains. Thus, scholars who strive to evaluate the EU predicament have obligation to bring to the forefront those instances of protection, if a comprehensive account is to be attained. Limited as it is, the social and environmental measures hint at a rather more complex configuration that undermines the unsubstantiated claim about the EU disembeddedness.

The second group of scholars who belong to the critical scholarship is more tuned to the actual developments of minimal social and environmental protection in the EU. Namely scholars, such as van Apeldoorn, Drahekoupil and Horn (2008), Bohle and Greskovits (2007), Overbeek and van Apeldoorn (2012) provide more nuanced account of the EU predicament. Rather than simply stating that the EU is disembedded, they proclaim the birth of embedded neoliberalism. However, their characterisation of the existing evidence of protectionism as embedded neoliberalism is problematic from a Polanyian perspective. Namely, they associate embeddedness with protection and find evidence of the same in the persistent corporatist social relations onto which neoliberalism was crafted. Such account lacks the theoretical vigour of a Polanyian analysis that does not conflate the existence of social protection

with embeddedness, hence weakening his social critique. This thesis resorts to Lacher's (1999; 2007), Dale's (2010; 2012), Watson's (2014a), Streeck's (2012b) and Burawoy's (2003; 2010) interpretation of Polanyi that avoids the conflation of social protection with embeddedness.

1.3. Theoretical Framework

Without downplaying their immense contribution, this research finds problematic the projection of an all-or-nothing understanding of the state of disembeddedness and embeddedness. Unlike the existing scholarship which attempts to answer the above questions by using Polanyi (1944; 1956; 1963; 1977) either as a catch-phrase or by expediently using his concepts in order to justify their normative position, this research will attempt to obtain a profound understanding of Polanyi's work before proceeding to the analysis of the empirical reality. To that end, this thesis engages in a critical reading of the Polanyian scholarship, whose interdisciplinary character assists me in unpacking the complexities that permeate the ecology of the EU. The list includes scholars such as Lacher (1999; 2007), Dale (2010; 2012), Watson (2009; 2014a), Holmes (2012), Latham (1997), Krippner (2004), Lie (1991), Silver (1983), Streeck (2012a; 2012b), Birchfield (2005), Block (2003, 2012), Burawoy (2003; 2010), Cangiani (2003), Vail (2010), Gemini (2008), Ankarloo (2002), Inayatullah and Blaney (1999) and Granovetter (1985). Engagement with the Polanyian scholarship will result into a meaningful synergy that will give a more nuanced assessment of the state of art of the EU socio-economic fabric than the existing scholarship. The significance of the study rests in its attempt, not to pluralise Polanyi within the wider EU studies literature, but rather to recuperate the lost social critique dimension that gets siphoned out when scholars attempt to extrapolate a purely analytical framework out of Polanyi's theory. Such a Polanyian perspective is capable

of generating valuable insights about the complex relationship between the economy and the society within the EU.

Karl Polanyi (1944) is best-known for his book, *The Great Transformation* (TGT), wherein he develops an unconventional narrative about the fascist crisis of the twentieth century, whose root he claims need to be traced back to Ricardian England. His double-movement thesis represents a critical appraisal of the institutional transformation that constituted *laissez-faire* capitalism of the nineteenth century (Dale, 2010). By bringing forward evidence that demonstrate the constructedness of the market society, he debunked the neoclassical economics view that the market emerges out of human's natural inclination for barter (Inayatullah and Blaney, 1999). Instead, he went at some length in trying to show how the idea of the self-regulating market gained predominance, thanks to particular state actions that brought forward the commodification of land, labour and money (Block, 2003). By transcending the conventional class struggle narrative, Polanyi asserted that the commodification of fictitious commodities instigated a counter-movement that aimed to preserve the livelihood of humanity and nature (Birchfield, 2005; Munck, 2006).⁴

His intellectual opus includes works on primitive societies, which enabled him to discern four types of socio-economic integration: *symmetry*, *centricity*, *autarky* and the *market*, which are constituted by different behavioural principles: *reciprocity*,

⁴ In his last book, *The Livelihood of Man*, Polanyi took it upon himself to recast the scope of the neoclassical economic inquiry that was merely concerned with the issues of economising and allocating scarce resources. Instead he advocated a reorientation of economic theory towards the livelihood of man, which depends on nature and his fellow humans. 'To study human livelihood is to study the economy in this substantive sense of the term' (Polanyi, 1977: 20). After careful consideration, I decided to replace the term 'livelihood of man' with 'people's livelihoods' in order to avoid the risk of being blamed for reproducing gendered categories, all the while maintaining the exact meaning of the concept that Polanyi had in mind. I would like to thank Lisa Tilley for bringing this to my attention. Polanyi himself used the terms interchangeably and basic 'find function' in the pdf version of his book shows that he used the term human economy, society, race, and livelihood more than 'man's livelihood'.

redistribution, householding and exchange respectively (Polanyi, 1957; 1963). In reality these patterns never occur in isolated forms (Watson, 2009; Block, 2003), nonetheless during *laissez-faire* capitalism of nineteenth century the market pattern gained institutional predominance by disembedding the economy from the non-economic relations. Polanyi (1957) was aware that the institutional separation between the market and society was never and could never be complete.

The Polanyian scholarship has not reached a consensus on the issue of whether the concepts of embedded and disembedded were used in descriptive, normative, or analytical manner as ideal-types (Vančura, 2011; Gemici, 2008). Dale (2010) is right to emphasise that the term disembedded is sporadically used in TGT. Lacher (1999; 2007) claims that Polanyi was using the term disembedded foremost as a political category, rather than as an accurate historical representation. Hence, Polanyi (1977) insightful critique of the self-regulating market should not be reduced to a mere statement of fact and taken literally, but should be read against the backdrop of his emancipatory commitment.

I propose an alternative conceptualisation of the concept of embedded and disembedded and therein lays the key contribution of this thesis. This thesis treats Polanyi's (1944; 1977) concepts of embedded and disembedded as categories whose analytical and normative aspects are closely related. I posit the two concepts as subjective evaluations of real phenomena - modes of operation of the society-economy relations. They have special ontological status that operates within a fictive notional framework of duality in a manner similar to that of the categories of cold and hot and bright and dark, which are adjectives that describe real phenomena - movement of atoms and presence of photons respectively. Embedded and

disembedded are evaluative qualities that refer to the socio-economic relations that have undisputed ontological status that is social in nature. As evaluative categories that can be predicated on many forms, it would be wrong to treat them as all-or-nothing phenomena. Rather than talking about particular system of socio-economic coordination as being disembedded or embedded we should be conceptualising the reality as a process embodying embedding and disembedding tendencies. When we think in terms of tendencies what matters most is the trajectory taken by a particular socio-economic configuration.

In our particular case, it is not useful to think about the EU as being either embedded or disembedded. First, there is a problem at the conceptual level that makes the qualifier ‘embedded’ redundant because every economy, including the most free market one is embedded in the social fabric (Krippner, 2004). Block (2003) has demonstrated that Polanyi was very much aware that the economy was always embedded. However, this does not mean that we have reached a defeatist position, where embeddedness starts to lose its meaning by incorporating everything within itself, as argued by Granovetter (2004). One road to salvation is via Dale’s (2010) emphasis on Polanyi’s idea of the market as an instituted process, which acknowledges the social aspect of the economy, all the while enabling us to deploy the concept of dis/embedded when making observation about the autonomous market forces. Thus, even when Polanyi characterised nineteenth century England as disembedded, the disembeddedness does not negate the institutional embedding, but it signifies a state where the market economy is disconnected from the social norms of duty and egalitarianism, and is constituted instead by the norms of profit-seeking and social atomism (Dale, 2010; Watson, 2009). This is in line with Streeck’s (2012b) conclusion that the ‘always embedded economy thesis’ does not preclude the

development of a disembedding market rationality that is capable of destabilising the lifeworld.

Yet another way of circumventing the problem is by understanding the socio-economic reality from the point of view of becoming and not finality, mainly by viewing the concepts as tendencies. My intervention in the ongoing debate on embeddedness aims to recuperate a latent formulation, never explicitly uttered within Polanyi's (1944) writing. This thesis puts forward a reading of Polanyi (1944) that acknowledges that *the embedding tendency is immanent to the disembedding one*. In his historical analysis of the creation of the competitive market for labour, land and money in nineteenth century England, Polanyi (1944: 87) observed the multifaceted nature of actions of the public authorities. In *The Great Transformation* (TGT) the narration of the development of *laissez-faire* capitalism is imbued with a nuanced observation of the complex interaction between the measures that constituted the disembedding and embedding tendencies. Therein, Polanyi (1944) presents us a reality constituted by a complex dialectic between the acts that disembedded the economy, such as the enclosure acts and the repeal of the Poor Laws, and the protective anti-enclosure measures.

Once we acknowledge the complex interaction between the measures that constitute each tendency, the quest for defining one social formation as either embedded or disembedded is obsolete. Postulating the matter in terms of tendency also avoids the conceptual contradiction present in Polanyi's theory; namely, his portrayal of nineteenth century England as disembedded and his thesis about the always embedded market economy as unearthed by Block (2003). These concepts should be perceived as means for understanding the character of the EU socio-economic state. We have

established now that the dis/embeddedness of the EU cannot be viewed in either/or manner, but rather it is a question of tendencies. Each tendency is animated by different underlying principles: *improvement* and *habitation*. In TGT Polanyi (1944) introduces the principle of *improvement* to mark the deliberate spreading of the market form and the actualisation of idea of the self-regulating market that constitutes the *laissez-faire* ideology; whereas the principle of *habitation* stands for the subsequent measures aimed at dealing with the social and environmental dislocations caused by the extension of the liberal creed (Watson, 2009; Lacher, 2007; Dale, 2010). This thesis will demonstrate how under the current neoliberal predicament the principle of *habitation* itself has been redefined in that it fulfils its purpose by extension of the market form.

This thesis argues that the biggest merit in Polanyi's analysis rests in his invention of these two principles and his idea of how they contingently interacted to produce what was known as a *laissez-faire* capitalism. Thus, I propose a new take on a wide-spread practice of recourse to Polanyi (1944) that largely focuses on the fixed notion of dis/embeddedness. Instead, I advocate a Polanyian perspective that will abandon the terminological fight over qualifying the socio-economic conditions as embedded or disembedded and will instead exploit the analytical potential of the abovementioned principles of *improvement* and *habitation* and their disruptive dialectical interaction.

These two principles should not be read in a functionalist fashion or treated as opposites (Cangiani, 2011). Given that change is contingent, one should not treat it as a function of the shifts between two possible super-states because change is contingent (Dale, 2010). We must make a conceptual distinction between the embedding moments and the double-movement, which according to Polanyi (1944)

takes effect only when society takes matters in its own hands to defend itself from the encroachment of the market creed. Thus, it is important not to assume the existence of a double-movement when we observe the existence of some embedding moments that need not result in the former. What emerges out of the dialectics between neoliberalisation and socio-environmental protection is a decelerated *rate of change* (Lacher, 1999). The *rate of change* is a very important notion that embodies the synergy between the embedding and disembedding tendencies (Polanyi, 1944). The successful manipulation of the *rate of change* allows society to acclimatise to the changes in the mode of production and the economic coordination, thus preventing the total annihilation of society. Nonetheless, although the *rate of change* temporarily secures the *habitation* of society, it prevents the inception of a synthesis that is capable of subsuming the contradictions between the marketisation/protection binary. The mere coexistence between the two principles does not immediately result in a dialectical mediation into a higher synthesis capable of transcending the antagonism between the two. The recognition of a contradiction does not automatically lead to a sublation (Brincat, 2011).

1.4. Thesis Statement

This thesis argues that studying the dialectical dynamic between the principles of *improvement* and *habitation* can enable us to better understand the socio-economic transformation of the EU. By examining the concrete manifestation of the tension that arises from the operation of the two principles we can gain insight into how institutional change unfolds. This thesis posits a reading of Polanyi whereby the *habitation* principle is immanent to the *improvement* one. I advocate for the re-actualisation of the idea that the two principles presuppose each other, which is latent in Polanyi's work. Throughout TGT, Polanyi (1944) makes explicit the simultaneity

of economic liberalism and social protection, which are both underpinned by heavy interventionism on the part of the state apparatus. Immediately upon the creation of a competitive labour market with the repeal of the Speenhamland Law that abolished the 'right to live' we witnessed another set of interventionist measures aimed at protecting society (Polanyi, 1944).

The evidence suggests that presently the EU is characterised by intensification of the trajectories of both the liberalising and the protective tendencies. In the EU the creation of the Single Market for goods, services, capital and labour is underpinned by a disembedding tendency. The critical formulations are correct in their claim that the EU project is marked by an incremental marketisation of social relations (Harmes, 2006; van Apeldoorn, Drahočoupil and Horn, 2008; Horn, 2012; Overbeek and van Apeldoorn, 2012; Höpner and Schäfer, 2010a; Bohle and Greskovits, 2007; Overbeek, 2012; Wigger and Buch-Hansen, 2012; 2014). The post-war welfare regimes have undergone a restructuring along neoliberal lines, despite the lack of total retrenchment (Frangakis *et al.*, 2009; Höpner and Schäfer, 2010a; Cafruny and Ryner, 2007a; 2007b). The completion of the Single Market has brought pressure for modernisation of the pension systems (Belfrage and Ryner, 2009; Hinrichs, 2011), the health care systems (Greer and Rauscher, 2011; Greer, 2008) as well as the employment policies (Bieler, 2008), the corporate governance norms (Horn, 2012) and the social protection policy (Bieling, 2011).

In the aftermath of the recent financial crisis, we are witnessing further extension of the neoliberal doctrine which demonstrates that the principle of *improvement* still operates at a full steam. The idea of the self-regulating market is deeply ingrained in the recent changes in the Six-Pack, the Two-Pack, the Euro-Plus Pact, and the Fiscal

Compact (Blyth, 2013; Hay and Wincott, 2012; Buti and Carnot, 2012; Streeck, 2012a; Hemerijck, 2012; Schmidt, 2014; Pivetti, 2013; Palley, 2013). Despite the short-lived return of the Keynesian ideas during the liquidity squeeze in the first phase of the crisis that required a significant state intervention, once the immediate collapse of the banking system was prevented the story narrative changed and European leaders stopped blaming the self-regulating Anglo-Saxon capitalism and directed all the efforts at the fiscal consolidation (Krugman, 2012; Soros, 2013; Buti and Carnot, 2012; Streeck, 2012a). Blyth (2013) calls this sudden change in narrative the greatest 'bait-and-switch' in history whereby private debt became public liability, all the while putting the blame on fiscal profligacy. Numerous volumes have come to the conclusion about the continued persistence of the ordo-liberal path of austerity actively promoted by Germany and adopted by the deficit-ridden member states (Lapavistas *et al.*, 2012; Gamble, 2009; Krugman, 2012; Schmidt, 2014). The enduring power of the free market imperative has not been weakened by the crisis. On the contrary, some scholars argue that we might be at the dawn of authoritarian neoliberalism (Bruff, 2014; Žižek, 2010), zombie neoliberalism (Dale, 2012) or an overt state-led neoliberalism (Watson, 2009).

For the purpose of analysing the extension of the disembedding tendency three policy fields with different levels of institutionalisation were selected: competition, financial and education policy. Each policy portfolio is governed by different set of norms and regulations. While competition policy is an exclusive competence of the EU, the financial and the education domains have only recently undergone Europeanisation dynamics and are shared and supportive competences respectively (Dony, 2009). Moreover, while competition and financial regulation have been pushed via binding

legislative measures, the education policy is mainly dependant on soft-law regulation such as the Open Method of Coordination (OMC).

The reason why these three policy areas were selected is because, despite their profound differences, one can recognise a common niche that underpins their operation. Rather than engaging in a traditional comparative analysis, this thesis' main objective is to identify a common trend, the extension of the market form, within these three policy fields. Irrespective of the form of the legislative instrument, whether it is binding or voluntary, the market form has been promoted across the three domains. The policy output across these three fields, which does not presuppose a uniform effect of the EU law, is marked by a process of extension of the disembedding tendency, whereby:

- a) The competitiveness discourse actively used by the competition authorities at the EU level has legitimised the privatisation of the public services, which represents an appropriational movement *par excellence* that introduce the competitive price-making market to domain previously sheltered from the market. The privatisation dynamic is akin to those acts of enclosure discussed by Polanyi (1944) that brought about the market society in nineteenth century England.
- b) Similarly, the financial integration agenda initiated with the Financial Services Action Plan in 1999 has instituted a trend of depoliticisation, whereby technocratic bodies are taking over key decision-making functions, while the electorate is left with minimal say in the governing processes. All the while, the macro-prudential policy reforms, introduced as a response to the financial crisis, fail to address some key trends that contributed to the crisis such as asset securitisation and finance-led accumulation. The scope of the policy reforms

have been limited to some transparency concerns, while we lack a profound debate about the purpose of finance in our economy (Sinclair, 2010).

- c) Finally, the Lisbon Agenda has pushed for the modernisation of education policy in a way that turns knowledge into a commodity with huge productive potential. The pursuit of the knowledge-based economy necessitates the creation of active neoliberal subjects that satisfy the needs of the labour market (Jessop, 2007; Bache, 2006; Mitchell, 2006; Walkenhorst, 2008). Higher education institutions have been transformed from places of provisioning of knowledge to productive circuits concerned with the economising principle.

Parallel to the intensified disembedding tendency, the principle of *habitation* is experiencing heightened revival, although it still does not enjoy equal footing as the principle of *improvement*. After a period of sole focus on *improvement*, the EU public authorities are signalling a turn towards *habitation*. This thesis acknowledges the arguments of the critical approaches that emphasise the operation of the principle of *improvement* underpinning the disembedding tendency in the EU. Nonetheless, they tend to neglect the growing instances of socio-environmental protection which hints at the existence of the principle of *habitation*. If Polanyi (1944) demonstrated the simultaneous occurrence of both principles, we should take time to examine the evidence comprehensively. To that end, this thesis will endeavour to bring to light those instances of the social and environmental protection that reveal a much complex nature than mere disembeddedness in the EU. The analysis is concerned with examining: a) the legal framework of the Lisbon Treaty, namely Title IX on employment, X on social policy, and XX on environment, b) the existing legally binding rules that set cross-national minimal standards in the social domain, c) the extensive environmental portfolio that has metamorphosed into a full-blown EU

policy, d) the autonomous agreements produced under the Social Dialogue procedure, and e) the policy architecture of the Open Method of Coordination. The project relies on NVivo, computer software that facilitates the collection and categorisation of primary data, which consist of policy documents and public statements. NVivo assists me in approach the policy output in a systematic way.

The second part of the empirical analysis aims to juxtapose the continued extension of the neoliberal creed with the increasing growth of a policy output at the EU level that aims to protect society and nature, as seen in the social and environmental policy fields. Although the growing evidence of socio-environmental legislation signifies a turn towards greater protection, I caution against an uncritical interpretation of the same. Namely, the project identifies a trend of extension of the market form in the realm of the socio-environmental protection, allowing me to question the optimistic narrative of the EU socio-environmental restructuring. It recuperates a critical Polanyian reading that highlights the unresolved ambiguities within the supposedly protective dynamics (Dale, 2012; Lacher, 1999; Watson, 2014a; Streeck, 2012a). The characterisation of the enhanced socio-environmental measures as a coherent counter-movement to neoliberalism is problematic because it reproduces an oscillatory representation of social change, which is something to be avoided (Cangiani, 2011; Dale, 2010). Because change is contingent, one should not treat it as a function of the shifts between two possible super-states. Thus, this project endeavours to contingently qualify the novelty of the emerging socio-environmental legislation which, despite its protective appeal, falls short of embedding the economy.

This project puts forward the thesis statement that both the disembedding and the embedding tendencies are marked by marketisation dynamics. The recent surge of

socio-environmental protection does not re-embed the economy, but attempts to make it more socially inclusive and environmentally sustainable. The emerging *habitation* does not aim to terminate the neoliberal accumulation regime,⁵ but only to create a more inclusive and socially sustainable hegemonic project (Jessop, 2003). How sustainable is the coexistence of the two tendencies that further liberalism and social protection? Unlike Polanyi who hinted at the crisis tendency in the mentioned cohabitation (Streeck, 2012a), the analysis of the policy output suggests that the EU believes that the self-regulating market and social cohesion can be achieved concomitantly. Both at the level of discourse and within the legal and policy framework we have institutionalisation of idea of an ‘inclusive and sustainable growth’. The Lisbon Treaty explicitly states that the objectives of the Union will be the promotion of ‘a highly competitive social market economy’ (TEU, Article 3).⁶

Unlike some of the critical scholars who hastily christened the existing state as embedded neoliberalism (Apeldoorn, Drahokoupil and Horn, 2008), this project follows Lacher’s (1999, 2007), Watson’s (2014a), Burawoy’s (2010), Dale’s (2010) and Streeck’s (2011) reading of Polanyi and argues that the exiting socio-

⁵ The regime of accumulation refers to the mode of production and consumption. The concept was developed by the French Regulation approach, which is not concerned with excavating general laws of economics, but with studying the institutional forms of capitalism through the interplay between the regimes of production and regulation. The Regulation Approach shares with Polanyi the view of the economy as an instituted process (Jessop and Sum, 2006).

⁶ Which represents a shift from the Treaty of Rome when the objective was the establishment of the market: ‘The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it’ (Article 2). Likewise, there is a shift from the Maastricht Treaty when it was only with the implementation of the common policies, i.e. Single Market and Monetary Union that balanced development was to be achieved. ‘The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States’ (Article 2).

environmental provisions should not be mistaken with embeddedness. The dialectic between the disembedding tendency and the socio-environmental provisions slows down the *rate of change*, which although temporarily secures the *habitation* of humanity, it prevents the inception of a synthesis that is capable of subsuming the contradictions between the marketisation/protection binary. The principle of *habitation* embodied in the social and environmental protectionism serves the function of slowing down the *rate of change* that allows people to adjust to the neoliberal *improvement*. Thus, they help transform the neoliberal *improvement* from a potentially ruinous into a constructive process (Jessop 2003). From a Polanyian point of view, the efforts on part of the EU public authorities to make the Union more socially cohesive and environmentally sustainable can be interpreted as an attempt to make the Single Market Project socially bearable. As such, these measures are only an ‘adjustment to capitalism’ (Burawoy, 2010).

Instead of prematurely waving the victory flag, this thesis argues that the increased social and environmental legislation does not decommodify the fictitious commodities, which would be necessary for us to render the economy re-embedded (Lacher, 1999; Watson, 2014a; Dale, 2010; Burawoy, 2010). What we observe in the EU is a heightened intensification of both the principles of *improvement* and *habitation*, as exemplified in the liberalisation and socio-environmental protective dynamics respectively. Streeck (2011a; 2012a) contends that the attempt to reconcile the two principles is utopian in nature and harbours an inherent contradiction as exemplified in the many crises of democratic capitalism, including the recent economic crisis that shows the intensified dialectic between the two principles. The surge of socio-environmental provisions is progressive only in its intention to mitigate the consequences of the Single Market, however ‘it might even be a block on the

move to the most genuinely progressive solution if protectionism itself enables the process of fictitious commodification to continue in the absence of more concerted political mobilisation against it' (Matthew Watson personal communication 22.10.2011). Thus, this thesis put forward a reading of the socio-environmental legislation that will acknowledge its inability to sublate the idea of the self-regulating market.

Moreover, we have a paradoxical situation wherein the socio-environmental measures, despite their protective invocation, are predicated on deepened commodification. Rather than trying to correct the dislocations by decreasing the dependency on the market, the new protection furthers the commodification of non-economic relations. By the commodification of socio-environmental protection, the market rationality is posited as the organising principle in the fields traditionally insulated from the vicissitudes of the market (Shamir, 2008). This thesis will analyse the novelty, the nature and the consequences of the new socio-environmental measures. Unlike the social safety net of the post-war settlement, the protective measures that arose as a response to the neoliberal restructuring a) use market solutions, b) spread the commodity form themselves, and c) represent a new socio-environmental paradigm which is not insulated from the market logic, but operates under it by being transformed into an input to the production process. Rather than trying to correct the failures of the market by decreasing the dependency on the market, the new protection entrust the market with the responsibility to tackle the externalities and their rationality is itself a product of the neoliberal epistemology (Shamir, 2008). The social and environmental variables enter the picture as long as they can be assigned a monetary value.

Although numerous critics have argued that in reality the social dimension is subordinated the objectives of competitive market (Cantillon, 2011), from a Polanyian perspective the socio-economic restructuring in the EU is disastrous not because of the way it is implemented, but because it purports to achieve two mutually exclusive goals (Panitch, 2014; Streeck, 2012a). The compromise between liberalisation and protection under the auspices of Lisbon Agenda is only at the level of appearance and does not represent a true synthesis capable of transcending the inherent contradictions between the two principles because protection is itself predicated on a commodifying logic. Rather than a balanced unity, the end result of the coexistence of the two principles means more disruptive strains. Although the socio-environmental protection constitutes the embedding tendency, it is not materialised into a potent counter-movement, which happens when society takes it upon itself to protect itself from the market forces.

1.5. Contribution and Significance

This thesis follows the steps of those scholars who find merits in Polanyi's (1944; 1957; 1963; 1977) work and use his conceptual apparatus to provide an assessment of the EU predicament. In doing so, the project strives to make three different contributions to the on-going research on the EU integration. First, this thesis follows a very conventional path in its contribution to knowledge by first identifying a gap within the existing scholarship. I have already discussed the conceptual problems present in both the mainstream EU studies and the critical political economy scholarship which deploy Polanyi's vocabulary when explaining the EU predicament. Without invoking the middle ground imperative, this thesis attempts to avoid the systematic neglect of the socio-environmental measures as practiced by the hyperbolic account of Harmes (2006; 2012) and Gill (2003; 2012). However, at the same time the

thesis tries not to read those socio-environmental measures a) as signifiers of a Third Great Transformation as done by Caporaso and Tarrow (2009) and Copeland (2009), and b) as instigators of embedded neoliberalism as done by van Apeldoorn, Drahokoupil and Horn (2008), and Overbeek (2012).

While acknowledging the shortcomings in both the mainstream EU studies literature that overstates the potential of the ever-growing socio-environmental legislation as well as the critical political economy school that adopts hyperbolic conclusions, this project claims that they can be overcome by a proper turn to Polanyi. To that end, I would like to engage in an exercise of critical appraisal of the Polanyian scholarship that consists of historians, anthropologists, economists and sociologists. What Polanyi wrote is much complex and subject to great criticism, reconceptualisation, and upgrade from the Polanyians (Gemini, 2008). This, in turn, will enable me to reconceptualise the conceptual framework of Polanyi that moves away from the functionalist representations of social change (Dale, 2012). Although more than welcome, the increased popularity of Polanyi's work has resulted in formulations that reduce a complex contingent transformation into a pendulum between two possible super states (Cangiani, 2011). Rather than wrenching his analysis out of context and extrapolating swing-like conceptual device, this thesis takes the challenge of bringing to the centre the dialectical interaction between the liberalising and the protective tendencies (Streeck, 2012b). Because his conclusions always referred, not to statements of fact, but to a possible and hence always partial actualisation of the idea of the self-regulating market as exemplified in the tendencies, this thesis attempts to tease out the concrete corporeality of this idea as manifested in the EU.

The second contribution of this thesis lies in the interdisciplinary character of the project, whereby I intervene in two separate disciplines in an original manner. The project simultaneously engages with the EU studies literature and the Polanyian scholarship. In doing so, it aims to enrich both set of literature. I highlight a problematic usage of Polanyi in the literature on the EU that betrays his critical foundation and to this end I intervene in a theoretical discussion in the Polanyian scholarship.

Last, but not least, the project significance rests in its attempt to make a humble contribution to the expansion of an emancipatory political project, which Lacher (1999) and Burawoy (2010) maintain was Polanyi's underlying rationale. In the spirit of Foucault's (1976) revelation that power and knowledge presuppose each other, post-positivist epistemology has made it clear that knowledge is never a neutral activity, but always occurs within a given social relations of power (Hawkesworth, 2006; Herrera and Braumoeller, 2004). Keeping in mind the emancipatory function of knowledge, I hope that this dissertation will play a transformative role by demonstrating the exploitative logic behind the neoliberal ideology. I maintain a normative commitment to the idea that the question of the survival of the commons, both social and ecological, cannot be left to the self-regulating market to resolve (Davis, 2007). I maintain that the particular choices that we make with regards to the research question bear the imprint of the epoch. Social scientists are product themselves of a given discourse which presupposes power (Foucault, 1976), yet to a limited degree we can engage in a critical reflection. Thus, I deem it necessary to deploy my existing 'intellectual power' to reveal certain dynamics that have escaped our inspection. The thesis' contribution rests in its ethical compulsion to problematise, in a Coxian (1987) sense, that which appears to be a natural regularity; hence

increasing the chances for a less unjust order. This thesis should be treated as a singular act of transgression without the pretention that it can secure people's livelihoods.

1.6. Structure of the Thesis

The structure of the dissertation is divided into six chapters. Following the introduction, the second chapter aims to provide a thorough analysis of the state of art of the scholarship that deploys Polanyi's conceptual vocabulary when explaining the EU socio-economic configuration. The dissertation positions itself *vis-à-vis* three sets of literature. The first set of literature is the mainstream EU studies which tend to use Polanyi in a rather expedient manner by interpreting the limited evidence of socio-environmental policy output as evidence of an emerging Third Great Transformation which is capable of transforming the neoliberal constitution of the European economy. Scholars belonging to this group include the likes of Hettne (2002) Caporaso and Tarrow (2009) and Copeland (2009). While their work contributes immensely towards popularising the work of Polanyi, their somewhat functionalist reading of Polanyi ignores his critical disposition and normative commitment to deconstructing the aura of inevitability around the market society.

The second set of literature that this thesis tries to relate to is the work on new-constitutionalism popularised by Gill (1995; 1998; 2003; 2012) and Harmes (2001; 2006; 2012). Their Gramscian radical praxis inclination aimed at transforming the existing taken for granted regularities leaves them committed to a critical interpretation of the existing social structures of power. In its efforts to interpret the existing marketisation of social relations within the EU, this thesis uses the new-constitutionalism critique of the monetary orthodoxy and the neoliberal macro-

economic practices. However, this thesis makes a radical departure from their hyperbolic conclusions in that, although it reaches a similarly disconcerting conclusion about the extension of the market creed in the EU, it tries to factor in the growing socio-environmental measures at the EU level. Rather than concluding that the EU is indisputably disembedded, this thesis is concerned with the complex interaction between the disembedding tendency and the new market-based social and environmental protection that is itself a product of the neoliberal episteme.

The third section of the literature review is dedicated to the nuanced critical political economy scholarship which proclaims the birth of embedded neoliberalism within the EU. Contrary to the new-constitutionalism literature that dismisses any potentiality of resistance, the likes of van Apeldoorn, Drahokoupil and Horn (2008), Overbeek and van Apeldoorn (2012) remain more attentive to the evidence that disproves the mere operation of disembeddedness. Nevertheless, in their proclamation of the birth of embedded neoliberalism they commit a conceptual error premised on the conflation of the social legislation with the existence of embeddedness. This thesis draws upon the insights from the critical Polanyian scholarship in order to show the need for a demarcation between mere protection and embeddedness (Dale, 2010; Burawoy, 2010; Streeck, 2012a).

The literature review is followed by a theoretical framework chapter which consists of a section that explores the key debates in the Polanyian scholarship and a section that operationalises the conceptual apparatus employed to analyse the EU socio-economic restructuring. Given the aim of the project - assessment of the EU governance structure in terms of its dis/embedding tendencies – it is necessary to examine the tremendous insights generated by the ever-growing Polanyian scholarship, which is

interdisciplinary in nature. This thesis' objective is to go beyond the expedient usage of Polanyi, and instead gain a profound theoretical understanding of his work. Thus, the opening section of the chapter is dedicated to the provision of general background information on Polanyi's understanding of the development of nineteenth century capitalism.

Following the notes on Polanyi, the chapter proceeds with a critical appraisal of the Polanyian scholarship. Therein, I attempt to tease out the main objects of contention among the scholars who, despite their criticism, are sympathetic to Polanyi's analysis. In addition to the previous positioning of my research, this will represent yet another opportunity for me to position myself within the interdisciplinary Polanyian scholarship. The engagement with this scholarship enables me to construct a fine-tuned Polanyian framework that avoids the pitfalls of brute analogies. I discuss the following six debates, which are of direct relevance to this thesis: a) the empirical inaccuracy in Polanyi's analysis, b) the conceptual contradiction, c) his static representation of change, d) the functionalism in his narrative, e) his modernist legacy, and f) Polanyi and Marx. After the critical, yet sympathetic, engagement with the Polanyian scholarship, this thesis will operationalise the conceptual apparatus that will be used to make sense of the EU socio-economic restructuring. The lenses through which I evaluate the EU predicament consist of the following conceptual vocabulary: a) the embedding and disembedding tendencies, b) the principles of *habitation* and *improvement*, and c) the *rate of change*.

Following the work on the conceptual vocabulary through the engagement with the Polanyian scholarships, the project will proceed with the actual evaluation of the historical development of the EU predicament. The empirical evaluation consists of

two basic components: the first being the analysis of the disembedding tendency which reached its peak point with the Maastricht Treaty and continues to operate in the aftermath of the on-going economic crisis, while the second part will examine the emerging trend of protection evident in the social and environmental policy areas.

The chapter on the disembedding tendency will bring to light the EU measures and policies that constitute the trajectory of the extension of the neoliberal creed. It will attempt to critically examine the novel way in which the old idea of self-regulating market has been actualised. To that end, three policy areas with different governance mechanisms were selected: competition, financial and education policy. Despite the different features, each policy field is undergoing a liberalising transformation. The first subsection investigates the liberalisation trend in competition policy, followed by the examination of the financial service integration that relies on institutional and rule-based depoliticisation (Burnham, 2011). The chapter concludes by the analysis of the education policy field, which despite its status of supportive competence and the lack of binding legislation has been marked by a commodifying tendency.

As a corollary to the previous chapter, the subsequent chapter will examine on the embedding tendency by mapping the trend of intensified socio-environmental protection.⁷ This research project refrains itself from an actor-centred policy analysis and instead is focused on extrapolating a common tendency within the two policy fields marked by institutional features. It identifies the spread of a market-friendly socio-environmental policy paradigm which turns the two domains into important inputs into the production process. I propose a juxtaposed comparison between the disembedding and the embedding tendencies, which tend to be presented in isolation,

⁷ However, it should be noted that the EU policy output that provides protection goes beyond these two policy fields. There are multiple actors within the variable spatio-temporal geometry of the EU who can trigger the principle of *habitation*.

in order to change the conventional assumption that the one nullifies the other. I follow Streeck's (2009) suggestion that a panoramic view offer us more comprehensive insights about the socio-economic restructuring.

The chapter dedicated to the embedding tendency first endeavours to introduce the social and the environmental policies of the EU respectively. The comparison of the two policies, which have distinct evolutionary pathways and enjoy different levels of scaling up, shows the emergence of new social and environmental paradigms that are being actively promoted by the EU authorities. Contrary to the old command-and-control system of environmental regulation and the conventional social protection policies, the reforms of the social and environmental policies redefined the very purpose of protection. The new paradigm identifies the market as the preferred choice based on efficiency reasoning, which Polanyi (1977) challenged as part of his critique of the formal understanding of the economy. The epistemological parameters of the new paradigm rule out any other political judgments from the decision-making, except for efficiency and budgetary sustainability. This thesis tries to problematise the orthodox economic rationality embodied in the new socio-environmental policies by adopting a Polanyian (1977: 25) substantive understanding of the economy, whose purpose goes well beyond finding the most cost-effective way of allocating insufficient means.

Chapter 2 Literature Review

‘theory is not only either true or false but has, independently of its truth value, some degree of verisimilitude’

(Karl Popper, 1963: 315)

For a fairly new research agenda of approximately seven decades of existence, the literature whose object of inquiry is the European Union has acquired enormous proportions. Any literature survey would show the vast number of theories and concepts devised to help us reach a better understanding of the ever-changing Union. Although it is beyond the reach of this research project to provide an exhaustive list of all the disquisitions on the EU, the following a few paragraphs attempt to provide the reader with a succinct assortment of the existing scholarship within which this dissertation is situated. The chapter will start with paying homage to the two founding theories of integration – functionalism and intergovernmentalism - and the subsequent response they triggered from the governance, constructivist and Europeanisation turns respectively. Following the brief evolutionary discussion of the most prominent debates, the chapter examines the literature that deploys Polanyi’s vocabulary when explaining the social, economic and political developments in the EU. For purely analytical purpose, the chapter roughly classifies the scholarship in three non-essentialist and not mutually exclusive categories: the mainstream EU studies, the new-constitutionalism literature and the critical international political economy (IPE) scholarship.

The first wave of studies, whose object of inquiry is the EU, has been mainly concerned with the ontological moment of integration. European federalism and functionalism are the oldest theoretical approaches to European integration that served as a backdrop against which subsequent debates developed (Telò, 2011). Envisaged in

the writing of Spinelli, EU federalism represents a deliberate political strategy that entails the creation of a regional constitutional settlement with a centralised authority directly accountable to the European demos (Telò, 2011). The main idea behind this project was and still is the establishment of a state-like entity at the supranational level, which will not only provide guarantees against war, but will also reap the benefits of economies of scale.

Contrary to the top-down federal political project, functionalism, associated with the works of Mitrany, predicts an evolutionary transference of loyalty to the supranational level (Saliba, 2010). Given its main assumption that form follows function, functionalists believe that the need for functional efficiency would inevitably lead towards more technocratic supranational solutions.⁸ Unlike federalists, functionalists adopted a universalistic orientation as opposed to a regional one because of their dislike for a territorially closed authority presupposed in any state-like structures (Rosamond, 2000; Jensen, 2007).⁹ Functionalism is the predecessor of neo-functionalism, whose major proponents are Hass and Lindberg (Saliba, 2010; Jensen, 2007). Unlike functionalism which lacks a clear agency that pushes the integration agenda, neo-functionalist identifies the High Authority (supranational body) as the

⁸ The quintessential neo-functionalist concept is the *spillover* effect. The basic idea behind this concept follows this logic: economic cooperation and integration in one sector necessitates almost invariably further integration within another sector because of their functional linkage. It is in the idea of automatic *spillover* that one can identify the functionalist ontology of neo-functionalism. However, neo-functionalism leaves space for a deliberate political action on the part of the High Authority established to supervise the integration process, and it also grants an agential potential to the interests groups who will benefit from deepened integration and regionalisation. Once an economic integration has been established in one area, the increase in transactions would lead to a formation of transnational interests groups who would pressure their respective domestic governments for more integration. The above interests coupled with the advocacy of the High Authority would inevitably lead to deepening of the integration project (Rosamond, 2000).

⁹ There are two essential differences between federalism and functionalism: (i) while the former sees the integration process as being highly political, the latter tends to focus on the technocratic nature of the same, and (ii) while federalist's end goal is a state-like structure at the EU level, functionalists have a less clear-cut end goal, hence their dependent variable deficiency (Rosamond, 2000: 28).

driving force behind the integration project (Rosamond, 2000; Jensen, 2007).¹⁰ A contemporary theory with a functionalist accent is the transaction-based approach that suggests that the moving force of integration is neither the state nor the High Authority, but instead the increased cross-border transactions, which places demands for common European rules (Sweet and Sandholtz, 1998: 11).¹¹

The neo-functionalist's belief in the significance of the supranational institutions was immediately challenged by the intergovernmental theory, which adopted a state-centric focus. Originally outlined by Hoffmann in the 1960s, the intergovernmental approach provided a realist twist to the theorising of the EU integration by shifting the focus back to high politics (Cini, 2007; Bomberg, Peterson and Stubb., 2008: 12).¹² One of the most renowned contemporary advocates of this approach is Moravscik (1991), who advocates a turn towards domestic politics as a basic level of analysis.¹³

¹⁰ Another difference can be identified in their end goal. Functionalism was critical of the reproduction of the territorially based political authority at the supranational level and thus called for the establishment of a post-territorial technocratic arrangement at the global level. In contrast, neo-functionalism is less opposed to the idea of territorially-bound supranational authority at the regional level (Rosamond, 2000: 69).

¹¹ Rather than instigator, the intergovernmental bargaining process is only a reaction to these demands. The integration that occurred within different policy areas is more a result of the increased transactions than a planned process envisaged by the states. The telecommunication and aviation are cases in point because they show how despite the lack of delegated prerogatives in these areas, integration happened due to the increased societal transactions.

¹² In trying to account why in certain instances we have a transference of authority to a supranational body, while in other cases we do not have integration at all, he made distinction between *low* and *high politics* and asserted that 'high politics was virtually immune from the penetration of integrative impulses' (Rosamond, 2002: 77). However, history would prove him wrong once we started witnessing instances of cooperation even in the realms of high politics.

¹³ His model is a typical example of a two-level game where: (i) first preferences are negotiated at the domestic level where powerful economic interests have upper-hand over other actors, and then (ii) states engage in strategic bargaining at the EU level. The two-level game explains how the state executives, influenced by domestic groups, behave in the international arena in a way that pleases the demands of these domestic groups. Moravscik explains that the way the EU operates is by finding the lowest common denominator among the powerful member states (1991: 25). A few assumptions underpin his analysis: (i) a conventional principal-agent understanding of the dynamic between member states and the European Commission, which deprives the supranational actors from purposeful behaviour, (ii) liberal institutionalist understanding of cooperation and institutionalisation, which can be explained with reference to the reduction of transaction costs and uncertainty in enforcement and credible commitments, (iii) rationalist understanding of states as self-interested utility-maximisers whose preferences are not altered by interaction at the international level, and (iv) neo-realist

Although both neo-functionalism and intergovernmentalism represent sophisticated theoretical accounts of the EU integration process, many scientists were dissatisfied with the exclusive focus on grand-bargaining and the big bang moments in the genesis of the EU. The EU studies scholarship is abundant with alternative theories that try to elucidate different aspects of the ever-changing polity. Each scholarly intervention, be it the governance, the constructivist or the Europeanisation turns, made a significant contribution to the progress of knowledge pertaining to the EU. The governance turn adopts a non-hierarchical ontology and directs our attention to the politics-polity-policy triangle. Theories belonging to this turn include, but are not limited to the multi-level governance model (Marks *et al.*, 1996),¹⁴ the network analysis (Christiansen and Piattoni, 2003),¹⁵ and the new-regionalism theory (Telò, 2007).¹⁶ Constructivism, also known as discursive institutionalism, criticised the existing theories of integration by questioning their ontological and epistemological

understanding of outcomes as a reflection of the relative power position of states at the negotiating table.

¹⁴ Critical of the fact that so many important questions got siphoned because of the previous exclusive focus on the ontological moment of integration, Marks *et al.* (1996) devised the concept of multi-level governance (MLG) that better maps the relations among actors. By eschewing the debates on the historical instances of integration, these scholars tried to pin-point the nature of the EU polity. The MLG confers equal potential to multiple actors that share the decision-making power while operating at multiple levels (Marks *et al.*, 1996). The arenas which are the locus where the integration process takes place are the domestic, the regional and the European polity.

¹⁵ Very similar to the MLG model is the concept of policy networks whose objective is to capture the complexity of the day-to-day decision-making within the EU. This approach brought to life many animating visualisations of the formal and informal policy networks that evolved around a single issue area. Christiansen and Piattoni (2003) claim that the policy network formulations are a midway between corporatism and pluralism because the number of stakeholders is not as low as corporatists would argue, nor are there as many groups with equal access as pluralists would suggest.

¹⁶ Yet another approach that emerged in the late 1990s under the governance umbrella is the study of the EU in terms of new regionalism. New regionalism is defined by Telò (2007) as the third wave of regionalism that post-dates the American hegemony and occurs at the dawn of a multipolar international system. This formulation manages to avoid the parochial nature of the EU theorising that is inward looking and acknowledges that the EU is not a free-standing polity in the world. Instead, it tries to make balanced overview of the EU integration trends by accounting for both endogenous and exogenous factors, thus conferring substantial multidimensionality to the integration phenomenon by positioning it *vis-à-vis* globalisation. This long awaited approach tries to provide an alternative argument to the hyperbolic views of both the Marxist and the economic liberal perspectives.

foundation.¹⁷ Unlike the rationalist formulations that conceptualise the actors as self-interested utility-maximisers, constructivism stresses the need for an endogenous conception of preference formation (Saliba, 2010; Jørgensen, Pollack and Rosamond, 2006). Instead, of treating actors as if they operate in a normative vacuum, constructivism takes seriously the intersubjective structure that exerts prescriptive pull through the norms of appropriate behaviour onto actors (Ruggie and Kratochwil, 1986; Wendt, 1992). It challenges the systematic neglect of the deeper institutional framework that constrains states behaviour (Schmidt, 2008).

Finally, the Europeanisation literature is concerned with the transformations of the domestic polity under the conditioning of the EU integration by assessing the level of harmonisation, convergence and divergence of policies among member states (Radaelli, 2003).¹⁸ The concept of positive/negative integration can be somewhat classified under the Europeanisation paradigm. The architect of this concept, Scharpf (1996), tries to provide typology of possible venues of EU integration: negative which entails the removal of domestic barriers and positive which consists of a creation of a common European model. The completion of the Single Market, Scharpf (2002; 2012) argues, has been predominantly marked by a negative integration, which, in turn, has resulted in constitutional asymmetry between the market-making policies and the policies of social protection. He takes a critical view of the consequences of the EU integration on welfare states because it imposed legal barriers to deficit spending, active monetary policies and countercyclical macro-economic management

¹⁷ In the 1980s constructivism emerged as a theoretical alternative to the rationalist approaches in international relations, namely neorealism and liberal institutionalism. Ruggie and Kratochwil (1986) and Wendt (1992) are among the pioneers of this approach. Constructivism inaugurated the ideational turn in social sciences.

¹⁸ Radaelli (2003: 30) defines Europeanisation as: ‘processes of (a) construction, (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’, and shared beliefs and norms which are first defined and consolidated in the making of the EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies’.

(Scharpf, 2002; 2012). The member states' autonomy and capacity to address the socio-economy problems have been reduced to supply side measures, such as deregulation and further liberalisation. The competition law has ruled out any subsidising activities by the member states, the Stability and Growth Pact has eliminated the option of countercyclical public spending, and the Economic and Monetary Union and its low inflation-target has removed the instrument of expansive monetary policy from the policy repertoire of member states (Scharpf, 2012).

Notwithstanding Scharpf's (1996; 2002; 2012) critically inclined research on the EU integration process, his conceptual framework of positive/negative integration is not best suited to study the substantive implications of the integration project through its predominant focus on the form of integration, be it positive or negative. Without doubting the merits of the positive/negative integration framework, one can conclude that it fails to capture the instances of a positive integration that help in the dismantling of the welfare state. For example, monetary policy is an example of a positive integration because it creates a common European model, while at the same time it disembeds the economy from society. The concept itself only explains the form of the integration, while leaving the question of the content under-theorised. Whether we have continued existence of the varieties of capitalism (VoC) or an institutional isomorphism does not in itself deny the operation of power relations that can be predicated on multiple forms (Bieler, 2008). The extension of the neoliberal doctrine can be secured even within divergent national practices. The VoC neglects the capitalist relations of production that constitute the institutional forms acquired by the national varieties. Bruff (2011: 482) reminds us that 'it is necessary to consider how to remain aware of the significance of institutions for the evolution of varieties of capitalism, while also affirming that they are founded upon, and not the foundation of,

social life'. Thus it is more appropriate to talk about a single variegated capitalism instead of national varieties (Jessop, 2012: 96).

This research is interested precisely in the relations between the economy and the society, rather than in the form or the means through which integration is achieved. The conceptual differentiation of the forms and the means through which integration is secured remain valuable from analytical standpoint, however this thesis' aim is to problematise the consequences of both the positive and negative integration, secured either through the binding legislative procedures or voluntary soft-law methods. To express myself in Habermasian terms, this research is concerned with the interplay between the functional network (the economy) and the lifeworld (society), as opposed to just the existence of common European models or divergent national practices (McCormick, 2007; Streeck, 2008). Since Weber (1921), scientists have been interested in the rationalisation dynamic that enabled the economy to acquire autonomy from the lifeworld. In a similar fashion, I intent to investigate how the present situated actions that are embedded in thick temporal structures reconfigure the society-economy relations within the EU. To that end, I deploy a Polanyian analysis of the EU socio-economic transformation that is interested in the dialectical interplay between the market expansion and its containment.

This thesis positions itself within three sets of scholarship which resort to the works of Polanyi in their examination of the EU: the mainstream EU studies, the new-constitutionalism literature and the nuanced critical IPE scholarship. The following three subheadings attempt to critically appraise each research stream separately and discuss the foreseen contribution that the thesis strives to make towards each of them. The first section introduces the mainstream EU studies, whose optimistic reading of

the double-movement abandons Polanyi's social critique of capitalism. Then, the chapter proceeds with the new-constitutionalism account that neglects to account for the instances of socio-environmental protection, thus betraying Polanyi's nuanced dialectics between the liberalising and the protective tendencies. The concluding section addresses the nuanced IPE scholars, who despite their comprehensive account of the empirical reality betray Polanyi by reading the protective tendency as indication of embedded neoliberalism.

2.1. Mainstream EU Studies

Recourse to Polanyi is not solely localised to the critical political economy scholarship. Polanyian inspired analysis has found its way into the mainstream EU studies scholarship. Caporaso and Tarrow's (2010) article on the European Court of Justice case law is one of the most influential of this kind. They argue against the claims that the ECJ has been acting exclusively as a free-market agent, but instead argue that the ECJ is playing a key role in the establishment of a supranational embedded liberalism. They bring forward evidence of free-movement preliminary rulings, whereby the ECJ has extended the social protection not only to non-national market citizens, but also to their economically inactive family members on account of membership to the EU community (Caporaso and Tarrow, 2010).

Caporaso and Tarrow's (2010) nuanced contribution demonstrates the complex nature of the ECJ jurisprudence that cannot be simply classified as being market-making. While their effort to bring forward the side-lined evidence of pro-social ECJ activism remains legitimate, scholars like Ashiagbor (2013), Höpner and Schäfer (2010b) and Lindstrom (2010) have raised concerns about their selective reading of the evidence. Despite the ECJ's efforts in expanding the access of social security systems to the

family members of the migrant workers, such extension of the EU social citizenship unfolded in the guise of even deepened liberalisation of the Common Market. The jurisprudence of the ECJ includes the cases of *Viking* (C-438/05), *Laval* (C-341/05), *Rüffert* (C-346-06), *Centros* (C-212/97), *Inspire Act* (167/01) and *Uberseering* (C-208/00) which reveal a continued juridical bias towards negative market integration. The internal market freedom norms, as embodied in the ‘freedom to provide services’ and ‘freedom of establishment’, continue to trump the social objectives in the ECJ jurisprudence (Ashiagbor, 2013). Moreover, the ECJ in its recent case law went a step further in interpreting what constitutes an impediment to market access, which goes beyond being non-discriminatory towards non-nationals. By declaring certain trade union actions as disproportioned, the ECJ, Höpner and Schäfer (2010b) argue, have derailed the achievements of the welfare state. Ashiagbor (2013) even laments the demise of the original compromise at the heart of the EU project that embedded the Common Market in diverse national welfare systems. She argues that the ECJ by expanding the access to social provisions to non-nationals effectively gives the option of ‘exit’ to EU citizens; hence it undermines the solidarity of the welfare state and creates pressure for further disembeddedness.

The above lines of critique of Caporaso and Tarrow (2010) fall within two categories: one points towards their selective reading of the evidence and another claims that the extension of the social citizenship itself serves to undermine the welfare state achievements. I identify yet another problem with Caporaso and Tarrow’s (2010) assertion that the ECJ jurisprudence can be interpreted as an effort in the direction of establishment of embeddedness at the EU level. The existence of limited case law that opens up member state’s welfare provisions to non-nationals does not in itself signify a return of Polanyi to Brussels. Even if we acknowledge that certain ECJ preliminary

rulings are pro-social in character because they restrict economic freedom, it is difficult to qualify the same as something that embeds the EU project in a Polanyian sense of the word. It will be explained below in the theoretical section that critical Polanyians, represented by Lacher (1999; 2007), Watson (2009; 2014a), Steeck (2012b), Burawoy (2003; 2010) and Dale (2010; 2012), maintain a clear distinction between embeddedness and social protection.

Copeland (2009) is yet another scholar who working from IPE perspective tries to show how the social dimension has been expanded throughout the 1990s and 2000s thanks to the launch of the Lisbon Agenda. By looking at the EU social policy output, he characterises the whole EU integration project in terms of a double-movement and declares the birth of a Third Great Transformation. While his attempt to bring to the foreground the instances of social legislation remains legitimate, his characterisation of the same as a coherent counter-movement in Polanyian sense of the word is problematic. I argue that such claims result from a superficial engagement with Polanyi, whereby his conceptual vocabulary is used in a catch-phrase manner. By making analogies at the surface, scholars like Copeland (2009) generate an oscillatory representation of social change (Cangiani, 2011). Polanyi's theory is much more complex and dialectic than the way it is presented in works that extrapolate a swing-line framework that lacks explanatory potential.

Similarly, Hettne (1997; 2002) whose work is situated within the new regionalism scholarship has claimed that the EU as a regional block embeds the self-regulating market. In his analysis he depicts EU regionalism as part of a counter-movement trend that is capable of saving the welfare state from the neoliberal logic of globalisation. As opposed to a liberal order, Hettne (1997) postulates a neo-mercantilist self-

sufficient regional order that is capable of resisting the pressures of the unregulated global economy. However, his optimistic rendering of EU regionalism is problematic because a) it is an overstatement of the actual reality, and b) it is based on a limited understanding of the term protectionism. Unfortunately, EU external trade policy is itself predicated on neoliberal lines, which De Ville and Orbie (2014) argue has been reinforced rather than curtailed since the beginning of the crisis especially as seen in the Transatlantic Trade and Investment Partnership between the EU and USA. The Commission has singled out global free-trade as the main motor of jobs and growth in its Global Europe paper (COM/2006/567). The discourse of the Commission legitimises an export-led growth strategy and identifies surplus of export as the cheapest exit strategy from the crisis (De Ville and Orbie, 2014). As such the discourse is consistent with the EU's policy of competitive austerity in the aftermath of the crisis which rules out alternative growth models grounded in demand-side measures. Trade policy is identified as the core element of the new 2020 strategy (COM/2010/612), where it is not only argued that a reduction in tariffs is important for the open economy, but:

What will make a bigger difference is market access for services and investment, opening public procurement, better agreements on and enforcement of protection of IPR, unrestricted supply of raw materials and energy, and, not in the least, overcoming regulatory barriers including via the promotion of international standards.

Contrary to Hettne's (1997) expectations, the EU not only fails to insulate the Single Market from the global market, it actively pursues the construction and expansion of the free-market by opening previously closed frontiers for capital accumulation. As a

rejoinder to the open regionalism thesis, Abdelal and Meunier (2010) have shown how the European vision of ‘managed globalisation’ has been a force for liberalisation. The second problem with Hettne’s (1997) conception of protectionism, which is transnational in nature as opposed to the mercantilist’s national one, is that it is based on a non-Polanyian understanding of the same. Although Polanyi (1945) himself has flirted with the idea of ‘regional planning’ as a counter-force to globalisation, he was aware of the limitations of such undertaking (Munck, 2006). What Polanyi called protectionism was referring to measures aimed at safeguarding people and nature from the vicissitudes of the market, rather than trade protectionism, which can be one small component of the same. The fact that the EU trade regime protects certain producers from the external pressure of a global free-trade market does not mean that it does not promote internally the operation of the Single Market along neoliberal lines. Even if we take the Common Agricultural Policy (CAP) as the most extensive protectionist policy, it does consist of certain features that prevent us from deeming it protectionism in Polanyian terms because the CAP itself is creating environmental and social dislocations, both inside and outside the EU.

The Polanyian renaissance in academia and in the wider community of practitioners as captured by Dale (2010; 2012) can provide us with a fresh, yet historically informed, look at today’s problems. However, this popularisation of his venerable work is not without implications for his legacy. Worth (2011) has provided a solid criticism of the trend of pluralising the critical IPE theories within the mainstream academic discipline, which comes at the expense of losing their radical normative commitment. We can observe a similar development with the spread of Polanyi’s work in mainstream academia, which in the effort of bridge-building has stripped down Polanyi’s argument of its critical dimension.

Scholars like Tarrow and Caporaso (2009), Copeland (2009) and Hettne (1997) tend to use Polanyi's work in an expedient manner as it provides a convenient structure for classifying observation. Staying true to Polanyi does not imply extrapolating and applying his framework without any problematisation of the same. Instead, it requires going beyond Polanyi by engaging critically both with his concepts and the changing empirical reality. Thus, this research project will consist of an exercise of drawing insights from the Polanyian scholarship which has a lot to offer us about the meaning of the concept of embeddedness. Without attempting to play the pretentious role of deciding the boundaries of what constitutes a 'true' Polanyian analysis, this thesis is an attempt to recuperate what is critical in Polanyi's work. I follow Lacher's (1999), Dale's (2010), Watson's (2014a) and Burawoy's (2010) interpretation of Polanyi that does not debilitate the political overtones of his analytical concepts by extrapolating a functionalist logic from his theory. Widening the circle of Polanyians is welcome, in so far as it does not compromise his epistemological tradition, whereby the double-movement is not only an empirical but a political concept.

2.2. New-Constitutionalism Literature

The origins of the critical school of thought and the disciplinary boundary between International Relations (IR) and International Political Economy (IPE) are a subject of disagreement among the scholarship (Shields, Bruff and Macartney, 2011). Although within the sequence of conventional narrative critical IPE is projected as late comer, Ashworth (2011: 11) reminds us that 'the emergence of IPE after 1970 was not the development of a new field, but a reactivation of a political economy approach that IR had largely abandoned by the 1950s'. Having in mind Ashworth's (2011) conclusion that the very act of narrating the boundaries of a given academic discipline is a way of controlling those boundaries, this thesis refrains itself from making sweeping claims

about the origin of the critical school of thought in IR. Nonetheless, within acceptable margin of error it is safe to acknowledge that the critical scholarship has gained its revival in IR through the works of Cox (1996), without denying the earlier alternative roots via Marxist theory (Burnham, 1994; Hasenclever, Mayer and Rittberger, 2004). Cox (1996) developed his historico-dialectical approach that tried to explain how the change in the material circumstances within the post-Fordist way of production and the liberalisation of finance have triggered a change in the existing international structure resulting in a new hegemonic ordering (Hasenclever, Mayer and Rittberger, 2004). The new hegemonic constellation of power is consolidated through the internationalisation of the historical block of the dominant countries (Cox 1996). The capitalist class, in its extended form, is the custodian of the new hegemonic order that permeates all levels of social life (Sklair, 2001).

Not long after Cox's groundbreaking theory other scholars followed suit and tried to challenge the mainstream problem-solving theories focused on studying reified regularities without problematising their historical conditioning and the power antagonisms that constitutes them. One of the most vocal critiques was uttered by Gill (1995; 1998), whose analysis attempts to reveal the politico-legal mechanisms and practices of global restructuring that constitute disciplinary neoliberalism, whose aim is to insulate the economy from a democratic control and bestow it with a privileged constitutional status. He provides a convincing and historically informed narrative of the latest transformation of the welfare state capitalism that he christens new-constitutionalism without being aware of Polanyi's (1944: 234) original usage of the concept to denote effectively a similar state of affairs, i.e. the electoral dispossession and the democratic deficit in decision-making concerning economic issues. The new-constitutionalism concept is particularly pertinent to the EU governance structure,

which has constitutionalised a rule-based depoliticisation and delegation of authority to technocratic bodies. The following table succinctly outlines Gill's narrative.

Figure 1. Gill's Analysis of Capitalism

Historical Development of Capitalism	
1. Old Constitutionalism	
	<i>Laissez-faire</i> liberalism in the nineteenth century where we had complete commodification of labour and land and the Gold Standard guarantees the exit option of capital.
2. Double-Movement	
	Social dislocations create a demand for protectionism during the 1st and the 2nd World Wars.
3. Progressive Constitutionalism	
	Post-war compromise, the so-called embedded liberalism where trade is liberalised, while capital controls are kept in place. States are free to pursue demand-driven policies. The Bretton Woods architecture and its Keynesian thinking made finance servant to production and allowed for expansive monetary and active fiscal policies.
4. New-Constitutionalism	
	The growth of TNCs, the rise of the New Right and the Chicago Boys who promoted the Washington Consensus led to liberalisation of finance, removal of capital controls and retrenchment of the welfare state. Prudential macro-economic policies, independent central banking, budgetary rectitude, low inflation, intellectual property rights were constitutionalised by IOs through their instruments of conditionality throughout the world.
5. Pre-emptive measures as part of the new-constitutionalism	

2000's brought civil backlash against the delegitimised neoliberal agenda, World Trade Organisation (WTO), General Agreement on Tariffs and Trade (GATT), and Intellectual Property Rights. Thus, capitalism put in place pre-emptive measures in order to prevent the double-movement from forming.

According to Gill (1998) the aim of new-constitutionalism is to enable an uninterrupted accumulation of private capital by allowing the dominant economic forces to be insulated from democratic control, i.e. formal separation of economy and society. By conferring privileged rights to corporations, the norms that constitute the new-constitutionalism agenda guarantee the free movement of capital. The imminent threat of capital flight has a disciplinary effect on states, which are enticed to provide a market-friendly environment. States' policy space is constrained and increasingly they find themselves performing the role of protecting capitalist property relations and ensuring transparency for potential investors (Strange, 2009). States are socialised and coerced into adopting: orthodox monetary policy (low inflation and price and exchange rate stability), supply side measures (privatisation, deregulation, competitiveness, flexibilisation of the wage relation), regressive taxation policies and budgetary rectitude. The new-constitutionalism is constituted by ideas that have attained a 'common sense' status, thanks to the organic intellectuals, such as Hayek (1976) and the likes of him, who form an integral part of the hegemony by providing justification for the existing system (by arguing that any form of state intervention is oppressive to human nature) (Gill, 1998). New-constitutionalism has a global character in that it demonstrates the structural power of capital over countries, which are subjects of increased surveillance by various international organisations, which are themselves an institutionalisation of the existing order.

The neoliberal agenda consists not only of market-enabling measures, but also of measures that deal with the dislocations created by the heightened commodification. However, according to Gill (1998), the latter are deliberately introduced by the forces of capital in order to pre-empt the unfolding of yet another double-movement. In his account the law is obviously a derivative of the capitalist power relations. Gill (1995) does not see a possibility of reintegrating the economy and the polity because the existing counter-responses from civil society are a mere consensual part of the hegemonic neoliberal order and they perform a legitimating role for the system.

This thesis project agrees with Gill's (1998) conclusion that the existing counter-hegemonic measures lack a historical agent capable of reconfiguring the neoliberal order, instead they have only helped stabilise the post-Washington Consensus. Nonetheless, it distances itself from his account, whereby the dependency position between civil society and capital puts the former in a disadvantageous situation with little possibility of liberation. Such defeatist position *a priori* assumes a hegemonic position for capital and relies on structural determinism with little venue for agential resistance. By giving upper hand to the material capabilities, he fails to acknowledge the fact that what sits alongside capitalism is a vibrant civil society capable of imposing its own agenda. Constructivists have demonstrated that this view is no longer warranted (Wendt, 1992). Although the social forces are deprived of material capabilities, their symbolic and moral authority enables them to exert influence over the public authorities. Outcomes in world politics are not exclusively a product of material structure, but instead they dependent on the communicative dynamic that is open for influence from other social forces, such as trade unions and civil society actors. This possibility of resistance does not invariably lead to favourable outcomes,

but even when it is not actualised this possibility prevent us from conceptualising the political game as a function of the capital interests only.

This thesis adopts a non-reductionist view of social change that privileges neither the material conditions over ideational factors nor the structure over agency. Regarding the first dichotomy, this dissertation distances itself from the growing constructivist scholarship with its emphasis on the intersubjective web of meaning and the episteme (Wendt, 1992; Adler and Bernstein, 2005). This thesis accepts constructivists' belief that alongside a material structure, which exerts structural power by allocating different capacities to different positions, there exists a structure of meaning that involves productive power that operates through diffusive social relations, systems of knowledge and discursive practices (Barnett and Duvall, 2005a). However, what should be avoided are the claims that the behind the level of appearance lies a real ontological reality constituted by ideas, because 'ideas are nothing but the very form of appearances' (Žižek, 2012: 31). Constructivism commits a similar mistake to that of Gill in that it does not avoid the subsuming of the material reality under the ideational.¹⁹

The mind-matter problem has preoccupied philosophy²⁰ for centuries and with the Newtonian revolution it seemed as if the latter won the day – the ontology of matter all the way down. However, the revolution in quantum physics has opened an opportunity for philosophers and scientists to question the notion that ideas and

¹⁹ Žižek (2012: 36) argues that the ultimate Hegelian dilemma of 'how can temporal reality *participate* in the eternal Order, how can this order *appear*, transpire, in it?' is resolved in the acknowledgement that everything is appearance as appearance.

²⁰ The famous debate between materialism and/or physicalism and idealism with its monist view (Leibniz with his 'monads' – the ultimate substance of the universe which is immaterial). There are some who eschew the mind-matter problem altogether, ex. Spinoza who argued that there is one true substance that requires nothing but itself for its existence and the only thing of which this is true is the totality, which has nothing laying outside it. That substance in turn has infinity of attributes – thought (consciousness) and the extended form (matter) are the ones we are familiar with.

consciousness is epiphenomenal by questioning the material view of matter.²¹ Wendt (2006: 192) tries to ground his Social Theory in the quantum turn and relies on the panpsychist ontology which stipulates ‘that the elementary constituents of matter have an intrinsically subjective aspect, and thus two irreducible manifestations – material and phenomenal, outside and inside’; which is effectively a Spinozian understanding of totality, which is neither dual nor monist in orientation.

Žižek (2006a) offers a new way of resolving the ideas vs. material reality problem, through dialectical materialism, which criticises historical materialism for its non-dialectical treatment of the two opposites. Unfortunately, the critical scholarship in IR and IPE has not engaged with the new insights of philosophy and is still predominantly marked by historico-material understanding, which ‘overcomes this external parallelism of thought and being, of thought as a passive mirroring of “objective reality,” through the notion of thought (“consciousness”) as an inherent moment of the very process of (social) being, of collective praxis, as a process embedded in social reality’ (Žižek, 2006a:4). Dialectical materialism on the other hand aims ‘not to overcome the gap that separates thought from being, but to conceive it in its “becoming”’ (Žižek, 2006a: 6). Dialectical materialism relies on a ‘parallax view’ that eschews synthesis in a single unitary dimension, but accepts the gap as the only point where radical critique can emerge. Only dialectical materialism as defined by Žižek (2006a: 106) opens up a space for subversive politics between the dialectics of appearance and essence, where ‘it is appearance which is asymmetrical

²¹ The standard model does not allow for the classical physics’ view of matter at the quantum level. ‘It is the collapse of quantum waves in the act of perception which fixes quantum oscillations into a single objective reality’ (Žižek, 2012: 906). Look at the wave function collapse phenomenon where the probability amplitude of a wave with all its possibilities in the superposition collapses into a single state for no cause in an act of observation, though the decoherence mechanism explains the appearance (Wendt, 2006).

encompassing term: the difference between essence and appearance is internal to appearance, not to essence '.

The material and the ideational reality are generated simultaneously through the discursive mode of production and the material process of production. Although Jessop (2008) and Macartney (2011) warn us not to allow an analytical conceptual demarcation between ideas and material conditions to turn itself into an ontological dual reality, we should be careful not to reduce the irreducible tension/gap into a singularity. Bieler and Morton (2008) are right that these two analytical categories are internally related. Relying on Žižek (2006a), I would claim that their internal relationship is itself the very irreducible gap.

Humans cannot escape the material conditions of their existence, nonetheless these conditions exist only insofar as they are internalised by the existing historical subjects. Regardless of the fact that the need for production is truly universal, Cox (1996) rightly reminds us that the 'how' of production is contingent on the conceptions of the world – common sense. Hardt and Negri (2001) in their conception of the multitude claim that what matters is not the material condition only (capitalist relation of production), but the subjectivities, i.e. the historical subjects and their consciousness. The possibility of resistance resides at the level of consciousness. It will be later explained in detail why Polanyi (1944), who in protest to the material determinism present in Marxist political thought, granted consciousness an upper hand by offering an alternative way of staying critical to the existing Gramscian approaches.

As far as the second dichotomy of structure vs. agency is concerned we can turn to Foucault (1976) for clarifications because, as Bieler and Morton (2008) remind us,

constructivists do not offer a satisfactory conceptualisation of the relation between structure and agency by incorporating ideational factors into the structural condition. The governmentality tradition conceived of the relation between structure and agency differently than the way it is presented by those who single out either structure or agency as the ultimate determinant of change. Governmentality is focused on a new form of power which is concerned not with imposing law on actors, but with disposing things through normalisation discourses and self-discipline (Lipschutz, 2005). The attention is on the productive aspect of power that generates discourses and rationalities that constrain our possibilities. This view shifts its focus from institutions to practices and mentalities that enable this special form of power. Through the technologies of agency and the system of knowledge individuals are constituted as certain subjects (Sending and Neumann, 2006). The objectification of individuals as certain subjects is the very mode of governing things through technologies of agency. Once we have constructed special subjects that are now endowed with agential potential, they cease to be mere objects of exercise of power, but become subjects through which power operates. The moment actors are constituted as subjects they are endowed with agency and possibility of resistance. This possibility of agency is pure potentiality (agent without agency), until it has acquired certain form; hence the autonomy of the agents should neither be assumed nor ruled out *a priori*. The governmentality emphasis on productive power is a useful conceptual device for analysing the Open Method of Coordination (OMC), which has been dismissed by the critical scholarship on the basis of its non-binding nature. This thesis holds the view that the OMC possesses a true transformative power; however it will be later shown that what matters most is not the process, but the actual outcome

of the policy because the OMC is a potent tool through which the Commission has disseminated a neoliberal socio-environmental paradigm.

Following Gill's (1995; 1998; 2003; 2012) line of reasoning, Harmes (2006) tries to investigate the possible ramifications of the existing trends of global restructuring for the EU. Harmes (2006) argues that the multi-level governance within the EU can be understood as a subset of Gill's concept of new-constitutionalism. He believes that the multi-level governance which is disembedded in essence is a deliberate project of the neoliberal agenda (2006). The neoliberal agenda entails separation of economics and politics by locking in legal-judicial mechanisms, policies and practices that provide price and exchange rate stability, capital mobility, property rights and budgetary rectitude. The above objectives can be best furthered if they operate within a special kind of market-friendly federalism, i.e. the one where the market-friendly policies are centralised at the supranational level and insulated from any democratic control and the market-inhibiting policies (labour and environmental regulation) are decentralised at the sub-national level (Harmes, 2006).

The European Union (EU) asymmetric governance structure is a typical example of this project where member states' economic policy space is constrained and the exit option of capital is guaranteed through the treaties. (Harmes, 2006) Whereas the supranational institutions are in charge of trade, competition, commercial and monetary policies, the subsidiarity principle prevents regulatory harmonisation of taxes, environmental and labour regulation at the supranational level. The transnational capital interests that are behind this asymmetric governance project tend to inhibit the reintegration of the economy and polity by condemning both economic nationalism (bringing the economy down to the polity) and Euro-democratisation

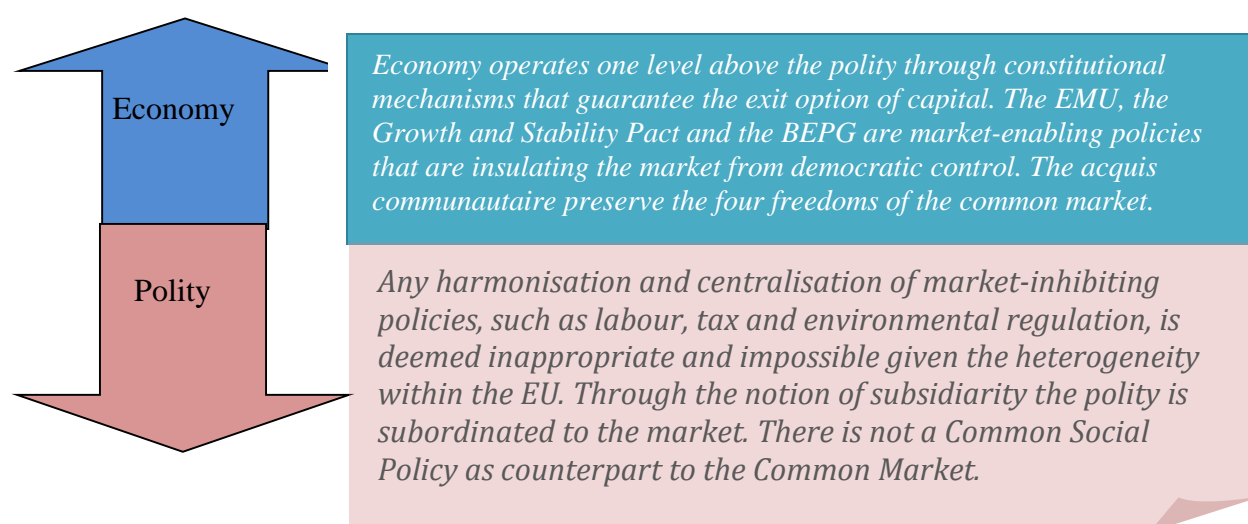
(scaling up the polity). This claim is supported by Levy and Prakash (2003) findings that transnational corporations (TNCs) tend to favour the operation of the economy one level above the polity.

The research question of my research was directly inspired by Harmes' (2006) characterisation of the EU as disembedded federalism and finds his conclusions valid. However, in what follows it tries to problematise one flawed premise that betrays Polanyi's understanding of disembeddedness. The biggest shortcoming of Harmes' (2006) account is the problematic link between the conclusion which he reaches and the premise on which he builds the argument. Namely, Harmes (2006) formulates his argument about the current predicament of the EU by looking only at the surface of the structure, i.e. deeming it disembedded because there is an asymmetry in the competence between the EU and member states. According to Harmes (2006) the EU is disembedded because monetary, competition and trade policies are scaled up at the EU level, while social and environmental policies are still decentralised. However, this asymmetry in the competences does not necessarily lead to disembeddedness in a Polanyian sense. The level at which the policy is formulated matter less than the actual quality of the measures that it institutes.

The very act of scaling up a policy area to the EU level does not make the structure disembedded, but the substance of the policy measure that sets competitiveness as its objective and internal devaluation as its means. From a Polanyian (1944) perspective it is the quality of the policies and not the level of their enactment that result in a disembedded system. The creation of the Economic and Monetary Union (EMU), the new Banking Union in the eurozone and the strengthened fiscal coordination with the new Fiscal Compact is a very potent example of how a scaling up of a policy can

deepen rather than alleviate the extent of disembeddedness. Moreover, the evidence brought forward in this thesis demonstrates that the scaling up of the environmental and the social policies at the EU level has been predicated on the extension of the market creed. Contrary to expectations, the Europeanisation of the social and environmental domains can be detrimental to the social cohesion and the environmental sustainability of the Union.

Figure 2. Disembedded Federalism



Similarly, scholars like Parker (2008) and Strange (2009) have noted that new-constitutionalism can be easily married with other accumulation strategies and not exclusively with the neoliberal one. Constitutionalisation of the rule of law does not by itself grants an upper hand to capital; it is rather the content of the norms that matter for the society-economy nexus. The plural aspect of constitutionalism includes the possibility of establishing progressive solutions to collective action problems (Parker 2008). Rather than pointing only the constraining nature of the constitutionalism in the EU, Strange (2009) identifies a venue for a social democratic subjectivity within the existing EU formation. Despite its self-proclaimed relational

dialectic that is open-ended, Parker (2008) charges new-constitutionalism with a rigid structural understanding of social change. While this thesis accepts Parker's (2008) and Strange's (2009) critiques of new-constitutionalism, it maintains that Gill's (1998) and Harmes' (2006) contributions are more substantive than any critique on conceptual terms can challenge. If we judge the concept by the parameters set by Gill (1998), their criticism is merely terminological. Gill (1998) is not concerned merely with the constitutionalisation in abstract terms, but with given legal measures that are undeniably of a neoliberal quality.

The added value of the critical turn lies in its emphasis on the implications of the completion of the Single Market for the society at large. This research draws inspiration from and shares the same commitment as the critical approaches that try to unravel the hidden dynamics behind the integration project. It subscribes to the same post-positivist epistemological orientation that holds that theories are part of the causal chain and that knowledge is a causal factor; hence, the call for more idiographic, reflective, emancipatory and transformative knowledge. Similarly to the critical scholarship, I eschew the debates on law-like regularities in the social sciences because these regularities are man-made and depend on stable configuration of power that the critical accounts attempt to deconstruct and transform, rather than reproduce through their declaration of it as a natural order (Cox, 1987). While mainstream EU studies are preoccupied with the form of the integration, the critical orientation tries to unearth the structure that compels us to see the world as such and not as something else (van Apeldoorn, Drahošoupil and Horn, 2008; Macartney, 2011).

While this research positions itself in the critical camp, it does so by using a different venue from the Gramscian scholarship that appears to hold monopoly over the critical

attribute. I propose a Polanyian perspective that will help us unpack the complexities of the socio-economic transformations in the EU. Though the critical scholarship has been referencing Polanyi (1944), they do so by engaging superficially with his conceptual framework. This, in turn, leads to a flawed usage of the concept of disembedded, which is usually treated as an either/or phenomenon. Namely, there is a tendency to borrow this concept without problematising it. Thus, this research will attempt to grasp a more profound understanding of Polanyi's concepts by engaging with the ever-growing Polanyian scholarship. The insights from the Polanyian scholarship will help this thesis construct a more precise conceptual framework that stays close to Polanyi's original ideas.

A Polanyian perspective will help me avoid the mistake common for the critical approaches that engage in selective reading of the evidence. Harmes (2006) just proclaims that there is a disembedded federalism in the EU without looking at the existing evidence of a growing social and environmental protection that hints at a more complex dynamic than merely a disembedded one. There is a non-negligible amount of policy output that appears to have escaped his notice. This dissertation research project would aim to provide a corrective to the existing shortcomings of the critical approaches by identifying, classifying and qualitatively assessing the socio-environmental protection and juxtaposing it against the neoliberal restructuring. This, in turn, will provide a more comprehensive account of the EU ecology than the one presented by the new-constitutionalism scholarship which solely focuses on the macro-economic aspect of the integration project. It will bring to the foreground the side-lined instances of protection that are indicative of the operation of the principle of *habitation* and will try to make sense of it through a Polanyian lens. Despite their subordinate status, the social and environmental dimensions have been undergoing

changes that deserve to be incorporated into a critical political economy approach to the EU.

The objective of this thesis project would be to provide an interpretative analysis of the evolution of the socio-economic transformations of the EU. Instead of oversimplifying and just stating that there is a disembedded federalism and lack of positive integration, this research project will attempt to understand the EU predicament in its totality. To that end it will look at the interplay between the disembedding and the embedding tendencies that permeate the EU. As a corollary to the disembedding tendency, this thesis will juxtapose the embedding one, which although does not enjoy the same constitutional status within the EU legal framework, it deserves scholarly attention. Starting from the mid-1980s Delors' started to acknowledge the need for measures aimed at ameliorating the distributive effects of the Common Market (Jespen and Pascaul, 2006). The Lisbon agenda and the new 2020 strategy represent efforts in that direction. The Amsterdam, Nice and Lisbon Treaties have incrementally increased the social and environmental provisions that now fall under shared competence between member states and the EU.

2.3. Critical Political Economy Scholarship

Another set of critical scholarship is connected, but not limited, to the Amsterdam political economy project associated with van der Pijl (1998), van Apeldoorn, Drahokoupil, and Horn (2008), Overbeek and van Apeldoorn (2012) and Bohle and Greskovits (2007). The Amsterdam project has demonstrated how the *comprehensive concept of control*, which represents a slight redefinition of Gramsci's idea of a hegemonic project that secures social integration through consent against the backdrop of coercion, operates not only by presenting the interest of the dominant

class as general, but also by incorporating the interests of the other classes in the particular interest (van der Pijl, 1998). The stability of the hegemonic project depends on the successful forging of an organic power block, whose coalition forces spill beyond the boundaries of the state apparatus and the class who owns the means of production. In trying to avoid methodological nationalism, the Amsterdam project attempts to account for the transnational processes, which are articulated simultaneously at the subnational, national and international levels. Although the Amsterdam project refrains from a simplistic representation of the transnational as some external force, it has been criticised by Bruff (2010) because its transnational in effect does not negate the national, but merely subsumes it.

It is through the transnational lenses that the Amsterdam project analyses the European integration as a particular project (van der Pijl, Holman and Raviv, 2011). The EU institutions are perceived as being embedded in a transnational configuration of power; hence the EU's strategic bias towards transnationally mobile capital. Unlike the somewhat more hyperbolic Gramscian views of Harmes (2006) and Gill (1998) that deem the EU disembedded, the scholars from the Amsterdam project provide more nuanced analysis of the EU asymmetric structure that they judge to be embedded neoliberalism. Van Apeldoorn, Drahokoupil and Horn (2008) trace back the emergence of embedded neoliberalism in the crisis of the 1980s that engendered a jumpstart of the internal market project with the SEA. They discern three competing political projects surrounding the re-launch of the integration agenda in the 1980s: a) one along mercantilist lines favouring industrial capital and aiming to create European champions, b) another along neoliberal lines supporting the needs of the transnationally mobile capital, and c) a third one along socio-democratic lines favouring the existing corporatist structures of the coordinated varieties of capitalism.

What emerged as the compromise was embedded neoliberalism, whereby marketisation is secured at the supranational level and protection at the national. The subordination of the objective of social cohesion to that of neoliberal restructuring has resulted in contradiction that results in a *crisis of neoliberalism* rather than *crisis in neoliberalism* (Overbeek and van Apeldoorn, 2012).

In their embedded neoliberalism configuration, the principle of protection is subjugated to that of liberalism especially with the Lisbon Agenda where the social dimension plays only symbolic role, thus making the name embedded neoliberalism problematic from a Polanyian perspective. Although the content of Overbeek and van Apeldoorn's (2012) and van Apeldoorn, Drahokoupil and Horn's (2008) analysis is similar to that of Harmes (2006) and Gill (2012) in that they share a common view of the devaluation of the socio-democratic and corporatists traditions in the EU following the introduction of the Maastricht convergence criteria that effectively brought competitive austerity, they christen similar trends with completely opposite terms. While the former identifies the transformation of the EU as embedded neoliberalism, the latter describes it as disembedded federalism. A question imposes itself: how is it that similarly critical accounts use Polanyi in opposite directions? In order to answer that question this thesis takes it upon itself to obtain a deeper understanding of the concepts under consideration by rediscovering Polanyi's original work and engaging with the Polanyian scholarly community that might shed light on the issue.

Despite the genuine efforts to incorporate the evidence of social protection in their analysis, the scholars under consideration make unsubstantiated claim when in the existing social measures they identify evidence for the emergence of embedded

neoliberalism. A contradiction arises when they christen the system embedded, while rightly acknowledging the subordinate role that social cohesion plays in the integration project. Such radically incomplete characterisation stems from their conflation of embeddedness with protectionism that the Polanyian scholarship warns us should be avoided. By drawing on a critical stream of Polanyians, such as Lacher (2007), Dale (2010), Watson (2014a), Streeck (2012b), and Burawoy (2012), this thesis will try to enrich our understanding of the emerging protection not by making analogies on the surface but by unpacking the complexities that underpin the current state of affairs in the EU.

Van Apeldoorn, Drahokoupil and Horn (2008) and Overbeek and van Apeldoorn (2012) effectively commit a similar conceptual error as the one made by the new-constitutionalism scholarship represented by Gill (2012; 2003) and Harmes (2012; 2006). Both the latter, who deem the EU to be outright disembedded, and the former, who see it as embedded neoliberalism, use Polanyi's conceptual vocabulary as a mere inspiration. While this thesis fully accepts their substantive interpretation of the deepened marketisation of the EU policies, it argues against their analysis on conceptual terms. Given the extraordinary popularity of Polanyi's concepts, this research project tries to go back to his canonical texts and explore their original meaning, however impossible it might be given the metaphysical limitations of the hermeneutical circle.

The exiting social and environmental provisions do not lead to embedded neoliberalism as the Amsterdam project argues, yet they manage to impair the full functioning of the self-regulating market (Lacher, 1999). We can identify a latent hypothesis in Polanyi's work that stipulates that *the principle of habitation is*

imminent to the principle of improvement. Block (2003) has already excavated the ‘always embedded thesis’ in Polanyi’s work. Yet, just because the economy is always embedded in social relations does not mean that we have embedded neoliberalism, which is a practice that still persists in the critical scholarship as seen in Cahill’s latest book (2014). This thesis advocates the substitution of the ‘always embedded thesis’ with Dale’s rehabilitation of Polanyi’s (1957) essay on *The Economy as Instituted Process*. In doing so we can avoid the conceptual confusion that arises when we merely want to acknowledge that the economy is always embedded, i.e. socially instituted, all the while the economy can fall short of any Polanyian standards of embeddedness that presuppose the complete decommodification of land, labour and money, as explained by Lacher (2007). Socially instituted notwithstanding, the economy can be disembedded in the sense of absence of moral dimension (Watson, 2005).

By assigning the attribute embedded neoliberalism to the current predicament, we risk stretching Polanyi’s (1944) concept to include policies that would otherwise not be considered embedded. Embedded cannot be conflated with a mere Third Way policies, which add minimal social-democratic system of distribution to the existing neoliberal mode of production. We should note that the embedding moments in the EU do not eclipse the neoliberal accumulation strategy, but merely enable the creation of a more inclusive hegemonic project, which is not what Polanyi (1977) had in mind when he conceptualised an embedded economy (Jessop, 2003). Watson’s (2014a: 18) reading of the anthropological voice in Polanyi’s later writing reminds us that ‘Polanyi urged transcendence rather than mere rolling back of fictitious commodification’.

This research tries to provide alternative venue to remaining critical by identifying the Polanyian turn as a viable theoretical formulation that can illuminate the complex nature of the EU political economy. Rather than simplifying the reality by focusing on one trend, neoliberalisation, that permeates all social action, this thesis will pay equal attention to the embedding and disembedding tendencies. It is in their dialectical interplay that we can observe key social facts that determine the parameters of the EU's predicament. Saying that everything is epiphenomenal to capitalism is an easy task, but explaining the nature, novelty and consequences of the socio-economic restructuring (even if they are just secondary phenomena) in its totality is the task that this research project takes upon itself. To that end, the next chapter engrosses in the task of constructing a theoretical framework that will guide the empirical analysis. The chapter examines in detail Polanyi's work and the contributions from the Polanyian scholarly community that can help us obtain a better understanding of the concepts so freely deployed by the critical scholarship, yet barely understood in their contradictory terms.

Chapter 3 Theoretical Framework

‘I am a good Hegelian. If you have a good theory, forget about the reality’

(Slavoj Žižek, 2010a)

The previous chapter through the literature review attempted to position my research within the wider academic community. This chapter will outline the theoretical framework that guides my analysis of the socio-economic transformations of the EU. Theories are essential tools that allow us to both understand and explain the phenomena under consideration. They consist of sets of propositions that assert certain types of relationship among given actors, events and policies. In the paragraphs to follow I will make explicit the ontological and epistemological foundations of this dissertation.

I subscribe to the tenets of post-positivism which is itself a very heterogeneous approach that includes both antirealists - who suggest that the world does not exist independently from our theories about it, and pragmatic realists - who believe in the existence of a referential external reality (Hawkesworth, 2006). Post-positivists’ main assumption is that there are ontological complexities and diversities. These diversities result from the fact that between what is there in the reality and what we see, is the process of perception that mediates the stimulus that we receive. The perception ‘depends upon a constellation of theoretical presuppositions that structure observation: accrediting particular stimuli as significant and specific configurations as meaningful’, while disregarding other information (Hawkesworth, 2006: 34). The fact that observation is theory-laden and that theory is prior to the observation undermines the validity of the positivist’s conception that theory is a result of observation. Post-

positivism does not consider the empirical reality to be the “ultimate court of appeal” because it questions the notion of an objective reality and the existence of unmediated facts (Hawkesworth, 2006: 36).²²

Given their ontological position that what we study does not exist independently from our knowledge about it, post-positivists instead of giving a true account of the reality want to ‘understand the meaning of a social action’ (Moses and Knutsen, 2007: 11). Weber has rightly observed that humans are wilful beings that take attitude towards social actions, thus giving rise to facts whose correspondence with reality is questionable (Moses and Knutsen, 2007; Weber 1904). Truth is always spatio-temporally bound.²³ The complex conception of ontology necessitated different epistemological orientation that is capable of elucidating the presuppositions upon which knowledge is built (Diez and Steans, 2005). Unlike positivists, who see no connection between ontology and epistemology, post-positivists claim that ‘the way that one comes to know the world determines what the world is’ (Herrera and Braumoeller, 2004: 16).

Although there is a lack of consensus about what is knowledge and how it is acquired, post-positivists agree on the critique of the positivists’ quest for nomothetic and

²² Post-positivists question the validity of both verification criterion of meaning and the falsification method promoted by positivists and rationalists (Hawkesworth, 2006). Something that has been verified and falsified once does not have to stay that way in the future. Because events are contingent and the course in the future might change, limited number of cases are not enough to establish a theory as universally truth. Thus, the scientific inquiry consists of contextual interpretation and understanding of reason and not exclusively investigation of causes. Weber claimed that sociology is: ‘science which seeks interpretative understanding (*deutend verstehen*) of social action, and thereby will causally explain its course and effects’ (Weber, 1904: 312). According to him a good causal explanation requires meaningful understanding of the motive. Friedrichs (2004: 110) reminds us that ‘the empirical reality is never fixed so as to allow for testing of hypothesis. What has to be rejected is that hypothesis testing can be conclusive in the social realm, as this presupposes that the social world can be exhaustively divided into two states (‘is’ or ‘is not’)’.

²³ It is worth noting that some post-positivists are instrumentalists in that they are agnostic about the knowability of truth. They agree that truth exists but they are sceptical of our possibility of attaining it (Moses and Knutsen, 2007).

reproducible knowledge. Because science is always part of larger social processes, scientists should be ‘open about the way in which our contexts...frame the way in which we come to understand’ (Moses et al. 2007: 12). Post-positivism is mindful of the power-knowledge nexus and always questions the neutrality of the theories, the methods and the researchers. In his famous quote Cox (1981: 128) provided excellent critique of the power inscribed in the knowledge production process, by claiming that theories are ‘always for someone and some purpose. All theories have a perspective’. This thesis takes seriously the non-neutral status of the theories, whose performative nature can affect the very social reality that they purport to merely study.

The novelty of this research project lies in the adoption of a Polanyian conceptual apparatus that is a cognitive means that can help us master the EU predicament, which is not fixed and given, but human-made and subject to constant change. By drawing on the insights from the growing Polanyian scholarship this thesis aims to provoke a conjecture with a broader empirical scope. Following the succinct outline of Polanyi’s work, the chapter continues with the examination of the main debates within the Polanyian scholarship. The chapter concludes by dissecting and discussing Polanyi’s main concepts that will guide my exploration of the EU political economy.

3.1. Notes on Polanyi

Karl Polanyi was a political economist, anthropologist and historian with Hungarian and Russian descent who was born in Vienna on the 21st of October 1886 and whose personal journey is no less interesting than his academic opus (Karl Polanyi Institute, 2012). He finished his university degrees in Budapest where he became familiarised with the work of Marx (Polanyi-Levitt, 1990). The rise of fascism took Polanyi to London where he was closely associated with a Christian Left Group and was giving

lectures at the Workers Educational Association (Pearson, 1977). He finished his most well-known book *The Great Transformation* (TGT) while on a research stay at Bennington College in Vermont in 1940-1943, USA. He retired from his professorship at Columbia University, but continued to be active and conduct research until his death in 1964 (Karl Polanyi Institute, 2012).

Polanyi was prolific scholar and published on a wide-range of topics. Polanyi (1944) interests evolved around the development of the market society, which according to him was not an inevitable reality, but rather an outcome of a conscious endeavour led by the state. He is best-known for his unconventional narrative of the roots of the crisis of the 1930s which according to him was an automatic response to the failures of the self-regulating capitalism in the nineteenth century. Besides his work on the theoretical critique of orthodox Marxism and the analysis of the historical development of capitalism, Polanyi also studied the economic ordering of the pre-modern societies (Dale, 2010; Polanyi-Levitt, 1990; Block, 2012). Unlike the capitalist mode of production and distribution governed by the price-mechanism and the monetary gain motive, the pre-capitalist societies were characterised by different institutional patterns, such as *symmetry*, *centricity*, and *autarky* and their respective behavioural principles of *reciprocity*, *redistribution*, and *householding* (Polanyi, 1944: 57). Barter was present in the pre-capitalist societies in their local and external trade, but only as an incidental feature that was embedded in the local customs and rituals. Polanyi's (1963: 30) study of the primitive communities shows how 'in the port of trade, administration prevailed over the "economic" procedure of competition'.

Polanyi (1944:4) conceptually separated the market from trade, whereby 'the market-place (indeed a locus: e.g. a fair) does not necessarily imply the market mechanism,

only trade as we have defined it above: neither price nor economising need enter into it'. It is only with the development of the internal market and its competitive essence, whose origin lies in state intervention, when the principle of exchange and its market pattern gained institutional predominance (Polanyi, 1944: 59-70; 1977: 135-137). With the industrial revolution, production was no longer organised by the household, the craftsmen, the burgesses, or the merchant and ceased to be subordinated to commerce. In the market system, the production started not to be organised for its use, but for its exchange value and took the form of buying and selling (134).

Within capitalism the market economy acquired a logic of its own (profit seeking) that tended to disembed the economic relations from the wider social relations (Birchfield, 2005). Contrary to the conventional wisdom that tends to naturalise the profit motive presupposed within the principle of exchange, Polanyi (1944; 1957; 1963) has shown the deliberate nature behind the development of the market society. He developed a theoretical account, known as the double-movement thesis, to describe the qualitative changes that nineteenth century societies underwent. The *laissez-faire* thinking of the nineteenth century, i.e. the idea of the self-regulating market, destroyed the social unity and created dislocations by commodifying land, labour and money, which, in turn, initiated the counter-movement in the form of protectionist measures (Pearson, 1977). In his narrative, the initial great transformation of the *ancien régime*, which required a great dose of intervention to create the free market of labour, land and money, fomented a counter-response aimed at re-embedding the insulated economic sphere. He sees the demand for social protection as an inevitable fact, but contingently necessary, given the disruptive nature of the self-regulating market.

Polanyi (1944; 1957) criticised the naturalism present in the neoclassical economics with a great fervour. He tried to show that there is nothing natural that led to the development of *laissez-faire* capitalism and it would not have come into existence if things were left to their own devices (Dale, 2010). The market society did not emerge from men's natural propensity to barter. Acts of barter were present in ancient societies, but it was not until the state intervention in the form of the enclosure movements that the market pattern started to crystallise. In TGT Polanyi (1944) makes a very important conceptual clarification that is valid today especially against the commentators who claim that neoliberalism has been brought to an end thanks to the state intervention in the form of bank bail-outs. On the contrary, Polanyi (1944:71) emphasised that 'regulation and markets, in effect, grew up together. The self-regulating market was unknown; indeed the emergence of the idea of self-regulation was a complete reversal of the trend of development'. There is a tendency to associate neoliberalism, just like *laissez-faire* capitalism for that matter, with no regulation at all, when in fact it is the quality of regulation that makes a policy economically liberal (Hopkin and Blyth, 2012; Konings, 2009). Polanyi (1944: 155) demonstrated how when 'freedom conflicted with the institutions of a self-regulating market, and in such a *conflict the self-regulating market was invariably accorded precedence*'. He continues:

The opposite of interventionism is *laissez-faire*, and we have just seen that economic liberalism cannot be identified with *laissez-faire* (although in common parlance there is no harm in using them interchangeably). Strictly, economic liberalism is the organising principle of a society in which industry is based on the institution of a self-regulating market...this is far from saying that market system and intervention are mutually exclusive terms.

His distaste for orthodox Marxism for its economic determinism distanced him from any theoretical postulations in simple class struggle terms (Block, 2012). He saw the counter-movement not as a class struggle, but a multi-class effort (Birchfield, 2005). Yet, we should note that Polanyi (1944: 159) identified the sectoral interests as the movers of social change because ‘only when one can point to the group or groups that effected a change is it explained how the change has taken place’. However, he did not think that the economic interests imply the givenness of the classes, as is the case with orthodox Marxism. Instead, interests have wider meaning than in Marxist thought and refer to the interests of society as a whole. Polanyi’s (1944) broadened understanding of the societal interests does not determine the outcome, but just the aim of society to self-protect itself. The outcome of the counter-struggles can be even reactionary as was the case with the fascist movements in the 1930s (Block, 2012). Not all struggles are emancipatory.

Polanyi’s unsympathetic view of the economic determinism present in orthodox Marxism induces scholars to accuse Polanyi of not being critical enough. Although Worth (2011: 122) has labelled Polanyi ‘as someone who favoured the reformism of British guild socialism over the more radical socialism of the early twentieth century’, Dale (2014), who is acquainted with Polanyi’s early work, reminds us that Polanyi was sympathetic to Austro-Marxism during his work in Red Vienna. It is noteworthy to highlight that in hindsight Polanyi’s objection to an orthodox Marxist interpretation of class struggle is particularly valid today given the characteristic of the new social movements (Munck, 2006).

Yet, we should be very careful not to conflate Polanyi’s view with that of the agent-centred pluralistic formulations, whose network-like representation of the complex

interaction between the public and the private interests is unable to account for major structural factors (Macartney, 2011). Polanyi after all was adopting an institutionalist analysis of change and as Hay (2004: 224) has rightly noted 'Polanyi does not so much provide a theoretical account of interest-formation as develop an anthropological and ethnographic approach to economic behaviour which eliminates the need to make *a priori* assumptions about, say, the interests of capital.'. Instead, the interest formation needs to be empirically verified, which makes me wonder about the compatibility of his view with that of Open Marxism and its redefined notion of class antagonisms as an open ended process, as opposed to the more orthodox deterministic view.

He coined the term 'fictitious commodities', which is not to be confused with Marx idea of 'commodity fetishism' (Birchfield, 2005). He identified land, labour and money as fictitious commodities because their production is not made for sale. Land is another word for nature, labour is just one aspect of the human nature, and money is not a commodity, but purchasing power, whose existence depends on central banking. Polanyi (1944) criticised this reductionist view of land, labour and money present in both classical and neoclassical economics. The attempt to create free market for these fictitious commodities was 'the weirdest of all undertakings of our ancestors' (Polanyi, 1944: 187), which tends to produce dislocations that result in crisis. It is noteworthy, that some Marxists, like O'Connor, have identified this as the second contradiction of capitalism, the first being the class antagonism associated with the ever-growing concentration of capital in the hands of the few which resulted in over-accumulation crisis (Castree, 2009). Namely, the second contradiction refers to the underproduction of capitalist pre-conditions on which it relies, but cannot generate itself, such as land, labour and money (Castree, 2009).

Polanyi's contribution goes well beyond his well-known critique of *laissez-faire* capitalism. Polanyi (1957; 1977) successfully debunks the economic fallacy associated with the formal understanding of the economy and proposed a turn towards the substantive understanding of the economy. He tried to reveal the historical contingency of the scarcity problem postulated in abstract terms and considered to be universally valid by classical economics (Polanyi, 1977). He criticised classical economics for its sole preoccupation with the scarcity issue and instead proposed a turn towards the concept of provisioning, which is not a matter of nature, but culture (Champlin and Knoedler, 2004). As an alternative to the formal understanding, he offers a substantive view of the economy as an instituted process whose purpose is to provide people's livelihood through interaction with nature and other fellow citizens and not merely by economising scarce resources (Polanyi, 1957). The economy is not restricted to the market pattern and its historically contingent tendency to increase profit, but incorporates alternative modes of economic coordination predicated on norms of solidarity. Rather than reducing the whole economy with all its socio-temporal specificities to the market form, he invited us to view it as a socially instituted entity (Dale, 2010; Gemici, 2008).

Polanyi's (1957) substantive conception of the economy originates from his anthropological study of the institutional varieties of the economy in ancient history. Polanyi (1957; 1977: 123) did not only make a conceptual distinction between the market and trade, but also between money and the market. Contrary to orthodox thinking, Polanyi asserted that money is not a commodity, but it is an institution concerned with debt obligations; hence his reflections resemble the institutionalist

accounts of Veblen and Commons (Maucourant and Plociniczak, 2013).²⁴ By analysing the different functions of money (all-purpose money vs. special purpose one), Polanyi (1977) was able to demonstrate how in pre-capitalist societies money was not governed through the principle of exchange, but through norms of reciprocity. Despite his historically grounded assertion that money predates the market, which is also supported by recent research on the origin of money (see Peacock, 2004; 2006), the orthodox view still holds that barter produces money and the different functions of money (unit of account and means of payment) follow from its function as a medium of exchange. In addition, Polanyi (1977) criticised the catallactic view of money because of its inability to factor in the state and the central banking into the concept of money, which is especially pertinent today given the current central banking system predicated on fractional reserve banking.

Polanyi's double-movement thesis has been up for grabs lately. The uncanny resemblance between *laissez-faire* capitalism and the current neoliberal predicament resulted in a more frequent recourse to Polanyi's (1944) famous double-movement thesis. Some scholars have tried to appropriate him as constructivist (Caporaso and Tarrow, 2009), others as Gramscian (Burawoy, 2003), third as ethnological IPE scholar (Inayatullah and Blaney, 1999). Many others, like Peter Evans (2008) find inspiration in his conceptualisation to formulate a global counter-movement project to the neoliberal establishment. Yet, some scholars, like Copeland (2009) simply apply his well-known concepts of double-movement and embeddedness without a sufficient understanding and problematisation of the concept themselves. By simply finding analogies at the surface between Polanyi's period of inquiry and the recent capitalist developments one risks missing the novelty of the latter. After all Polanyi was

²⁴ However, there is difference between Polanyi and the institutionalists (See Watson, 2005).

providing an analysis of contingent phenomena and social actions which cannot be simply extrapolated and re-contextualised in a novel setting. In order to avoid the pitfalls of ahistorical interpretations, this research would like to address the controversies surrounding Polanyi's theory and operationalise the concept of embeddedness, hence making it better suited for assessing the EU experience.

When providing the narrative of the ecology of the EU polity through the concepts of embedded and disembedded, this thesis would avoid the brute analogies with Polanyi's double-movement present in other scholarship. While I deem concepts exportable, one should be attentive to their historical contingency. Although one can find commonalities between the recent legitimacy crisis of neoliberalism and the counter-movement that arose as a response to *laissez-faire* capitalism, one should avoid the simplified conflation of these two distinct historical processes. The differences are striking. The nature and the diversity of the multiple resistance projects today can hardly constitute a coherent counter-movement. Neoliberalism has not lost its hegemonic position despite the recent financial crisis (Dale, 2012). The evidence suggests that there is not a coherent alternative that can displace the existing neoliberal common sense (Stephen, 2011). A reference to Gramsci is in order because he captured this peculiar stage in his famous statement that the old is dying, but the new is not born yet (Overbeek and van Apeldoorn, 2012). Dale (2010) is right when he warns about the danger of considering the counter-movement as something more than a mere heuristic-devise. Moreover, the pendular conception of change is overly deterministic and does not allow for societal efforts that often pull in different directions (Cangiani, 2011; Dale, 2012).

3.2. Main Debates within the Polanyian Scholarship

The most sophisticated Polanyian debate is undertaken by economic sociologists, anthropologists and archaeologists who have emphasised:

- a) the empirical inaccuracy of Polanyi's analysis,
- b) the conceptual contradictions present in his theory,
- c) the static representation of change,
- d) the functionalism in his narrative,
- e) his modernist legacy, and
- f) the erroneous assumption inherent in his distinction between embedded and disembedded society.

3.2.1. Empirical Inaccuracies

Regarding the first intervention, a wide array of empirical evidence has been presented to challenge Polanyi's assertion that the market society is disembedded compared to the fully embedded pre-capitalist societies (Hejeebu and McCloskey, 2004). Numerous case studies have demonstrated the operation of the price-setting mechanism in the medieval period, which, in turn, shows that disembeddedness cannot be counted as an exclusive feature of *laissez-faire* market economy. Scholars like Latham (1997) try to prove the existence of general currencies (rod currency) in pre-modern societies which they consider to be synonymous with the market system, hence disproving Polanyi's (1963) theory about the absence of price-making markets in ancient societies as elaborated in his article *Ports of Trade in Early Societies*. Similarly, Silver (1983) by looking at ancient Mesopotamia argues that pre-capitalist markets were no strangers to the price-making and loan markets.

Holmes (2012) has rightly observed that economic sociologists and anthropologists have been critical of Polanyi's work both for his rendering of pre-modern societies as embedded and *laissez-faire* capitalism as disembedded. Scholars who find evidence for trade in pre-modern societies tend to conflate trade with the market system as defined by Polanyi. Polanyi himself does not deny the operation of the principle of exchange in pre-capitalist societies, but only the market system as a distinct institutional pattern. 'Trade did not necessarily involve markets' (Polanyi, 1944: 62). The acts of barter were present in all societies, but 'they are considered incidental since they do not provide for the necessities of life' (Polanyi, 1944: 64). Polanyi makes a distinction between local, external and internal trade. According to Polanyi (1977) the latter, which had a competitive underpinning, developed due to state intervention, while the former two are associated with fairs and ports, and as such were present in pre-modern societies. Polanyi (1944) noted that the acts of exchange were present in prehistoric societies; however the existence of the market-place in the external trade system did not involve the economising rationality that underpins the market society.

As far as Latham criticism is concerned, Polanyi (1944) does not deny the circulation of currencies in pre-modern societies. However, the money used in pre-capitalist societies 'was not a means of exchange, it was a means of payment; it was not a commodity, it was purchasing power' (Polanyi, 1944: 205), usually associated with status and rank. Money in pre-modern societies did not have usefulness in themselves, but were used for purchasing products, whereas in the market society money is transformed into a sought after commodity.²⁵ The role of the state was not only

²⁵ Interesting parallel emerges between Polanyi and Marx. Marx (1906: 165) makes a distinction between two forms of circulation: C-M-C, where commodities are transformed into money and again into commodity, and M-C-M, where money is transformed into commodities and into money again

crucial to the development of the market for land and labour, but also for money (Peacock, 2004; 2006). By studying the special-purpose money from early periods, Polanyi (1957: 264) saw the flaws in the catallactic view that sees money as a neutral medium of exchange. He showed how the other functions of money, such as unit of account, and means of payment do not derive from the market, but from 'definite uses' (Polanyi, 1957: 264). Thus, he recognised the role of the state in monetising the economy, which is further supported by new research on the origin of money (See Peacock, 2004; 2006). The role of public authorities is best seen in *laissez-faire* capitalism, when the central banking policy 'reduced the automatism of the gold standard to a mere pretense' (Polanyi: 1944: 204) and in the modern central banking practices (Helleiner, 1994).

Ankarloo (2002), who sees Polanyi's conception of different systems of economic coordination as historical, provides a good critique of the criticism by claiming that scholars like Silver (1983) by identifying the market system as ubiquitous fail to account for the qualitative changes and the development of the capitalist system. If Silver (1983) is right that the market system was present in prehistoric societies, then there are not fundamental differences between the present system of economic coordination and the pre-capitalist one.²⁶ The merits in Polanyi's (1957) analysis lies exactly in the point that he tries to account for the development of the market system, which is a special mode of coordination, an instituted one. The exchange principle is ubiquitous, but the market system did not arise from spontaneous acts of exchange,

(buying for the sake of selling). It is the latter case that transforms money into capital. In the former case the goal of the circulation is commodity, in the latter it is money, themselves.

²⁶ Silver does not make difference between the economy and the market system in the way Polanyi did. We are bound to find similarities between capitalist societies and the ancient communities. All societies are dependent on specific modes of production and redistribution (circulation). Nonetheless, unlike the 'what', the 'how' of production is not ahistorical (Cox). Pre-modern societies had economic system of coordination qualitatively different than the capitalist ones and that is Polanyi's object of inquiry.

but due directly to state intervention that helped in the creation of the market for land and labour.

Another way of countering the criticism is not by unearthing empirical evidence that supports Polanyi's position, but by stressing the analytical aspects of the concepts. Polanyi (1977) did not use the concepts in descriptive manner to portray historical situations, but in analytical terms. Although the jury is still out on the question of the existence of fully embedded and disembedded societies, one can still circumvent this problem by claiming that these two concepts should be treated only as ideal-types and not as actual manifestations. Although Polanyi (1957) might have exaggerated the evidence for the embeddedness of the traditional societies, one can redefine these concepts as ideal-types and measure the extent to which certain social realities approximate these two opposite poles. It has been suggested that Polanyi's characterisation of the pre-capitalist society as embedded stems from his normative commitment that help him envisage a progressively superior organisation of the economy (Hejeebu and McCloskey, 2004). The merit in Polanyi's analysis rests in the critical potency of his judgement rather than in its historical accuracy (Hejeebu and McCloskey, 2004). By representing the pre-modern societies as embedded he created a backdrop against which he could normatively assess the socio-economic transformations that nineteenth century capitalism instigated. This research will later show how an alternative reading of the concepts as constituting tendencies rather than all-or-nothing affairs can help us rescue the validity of the same.

This thesis accepts Inayatullah and Blaney's (1999) conclusion that Polanyi successfully eschews the romanticisation of the pre-market modes of coordination. They argue that because Polanyi understood reality as being a social construction, he

avoided the naturalisation of the primitive societies. Polanyi (1957) did not idealise the pre-modern organisation of the economy, which undoubtedly would be predicated on social norms that exert structural violence towards individuals. But rather, Polanyi (1957) was using the evidence from the ancient civilisations to disprove the neoclassical economic naturalisation of the competitive price-setting market, which was a mere historical artefact rather than a universally valid norm. Moreover, Inayatullah and Blaney (1999: 330) rightfully argue that Polanyi was performing a double critique of both the market society and the pre-modern civilisations by advocating the building of a 'new civilisation'.

3.2.2. Conceptual Contradictions

The second criticism of Polanyi's (1944) work reveals the indeterminacy presents in his understanding of the economy as being organically interrelated with society and his historical explanation of the self-regulating market as a disembedded entity. Namely, it is difficult to marry his assertion that the economic activity is deeply embedded in societal relations with his conclusion about the *laissez-faire* economy as being insulated from the social fabric. Lie (1991) criticises Polanyi for failing to note that the market society, although a utopian construction, is part of society, i.e. it cannot be disembedded. Thus, he proposes an alternative categorisation of mode of exchange to the one introduced by Polanyi.

Krippner (2004: 110) shares similar concerns by claiming that 'both Parsonian sociology and neoclassical economics share in common not only atomism, but also a vision of the social world as sharply demarcated into neatly bounded and essentially separate realms'. She warns us of the tendency to 'conflate the duration of a market relationship with the degree to which it is 'social'' (Krippner, 2004: 111). However,

her criticism is not so much directed towards Polanyi as towards Granovetter's (2004) network approach and Block's idea of the market as a variable which were inspired by Polanyi.

There are even those scholars, like Cumberpatch (2001), who advocate for refraining from the usage of the concept of embeddedness altogether because he identified an erroneous assumption – that the economy and society can be separated - which underpins the concept of embeddedness. Namely, if thing A is embedded in thing B, then we presuppose the distinctive nature of these two entities. Cumberpatch (2001) does not accept even the distinction at a metaphorical level because it implies that we understand that economy and society as being separate entities, whatever the relationship between them is: in integration or separation. The very concept of embeddedness as structuring principle denies the social construction of the economy. As Cumberpatch (2001, n.a.) explains:

As used at present, the metaphor involves the invocation of a social entity (society itself) which pre-exists specific social institutions (which are defined as economic institutions). That is to say, those who use the terms embedded and disembedded appear to assume that something exists which is, in itself, constitutive of 'the social' and which can be considered apart from specific autonomous institutions - i.e. economic institutions - which stand in a relation of integration into, or separation from, it. Conversely, the economic institutions which are seen as either embedded or disembedded with respect to society are, in effect, being conceived of as post-social institutions rather than as constitutive parts of a social formation.

Despite the last critique's invitation to abandon the existing conceptual language and look for alternative conceptualisation of the societal transformation, this dissertation deems Polanyi's framework worthwhile. It acknowledges the seeming internal ambiguity that arises from the different voices with which Polanyi writes, as anthropologists, historian and activist (Watson, 2014a). The research adopts Polanyi's assumption that the economic relations are embedded or better instituted within the social fabric as one among many other social relations (Dale, 2010). Hence, every economic activity is in essence a social activity and a social construction; regardless how short is its temporal aspect (Krippner *et al.*, 2004). However, the fact that the economy and the society are internally related does not mean they are analytically indiscernible. Scholars have tried to conceptualise different spheres, such as the economy, the civil society, and the state, which are constituted by irreducibly social but distinct types of relations. Therefore, as long as we are aware of the social aspect of the economy there is no danger in applying the concept of embeddedness when analysing the specific relations between the economy and society.

Gemici (2008) identifies two different usages of the concept of embeddedness, one methodological when Polanyi was criticising the formal view of the classical economy, and another analytical when he provides a historical critique of nineteenth century *laissez-faire* capitalism. This thesis acknowledges the 'different voices phenomenon' inherent in Polanyi's work, where we can identify ambiguous usage of the same terminology depending on whether he spoke as historian, anthropologist or political activists (Watson, 2014a).

Dale (2010) who has provided a comprehensive reading of Polanyi's wider opus has provided a way of resolving the alleged contradiction to the given predicament by

proposing the term *instituted* as a more appropriate indication of Polanyi's ideas. 'The novelty of the market economy is that its institutional embedding entails a diremption from non-economic institutions in a manner that negates both social control over economic institutions and moral behaviour within them' (Dale, 2010: 201). Thus,

to say that the liberal market is 'embedded' in the sense of 'instituted', then, does not negate its 'disembeddedness' at the other levels. The term does not denote the economy's separation from society but non-economic institutions, a separation that produces a rift between individual and society and a consequent moral degeneration.

Polanyi (1944) himself was not preoccupied with the term disembedded. Instead, in the TGT he explained how a pre-modern system of economic coordination embedded in specific cultural norms got transformed into the market society that tended to disembed the economy from society. In practice all economic activity is situated within social norms, i.e. embedded. But, here embedded is different from the way Polanyi used it. He used the concept to denote a state deprived of the commodification of land, labour and money where economic coordination does not consist of the principle of exchange exclusively (Lacher, 1999). Polanyi does not aim to provide a descriptive history of *lasses-faire* capitalism, but constructs a theoretical framework which is infused with normative content to provide an explanation to the origin of the crisis in the 1930s.

In the TGT when he talks about different systems of economic coordination he made it explicit that 'we are not dealing here, of course, with pictures of actuality, but with conceptual patterns' (1944: 205). Polanyi was aware that 'no market economy separate from the political sphere is possible; yet it was such a construction which

underplays classical economics' (1944: 205). The institutional separation between the economy and society is never complete and purely utopian. In his analysis of the nineteenth century England, Polanyi (1944) observed that the Speenhamland Law reform was immediately followed by measures aimed at containing the negative consequences that it engendered through the creation of the labour market. As Polanyi put it 'yet almost simultaneously the self-protection of society set in: factory laws and social legislation, and a political and industrial working-class movement sprang into being' (1944: 87). And this is valid not only for the labour market that was created last, but also for the market of land and money. Polanyi (1944: 73) notes the urgency with which the Tudors and Stuarts themselves initiated anti-enclosure legislations, namely 'the ant-enclosure policy of the Tudors and early Stuarts was one consistent protest against the principle of the gainful use of landed property'. As far as money as a commodity is concerned, the central banking policy 'reduced the automatism of the gold standard to a mere pretense' (Polanyi, 1944: 204).

Block (2003: 289) rightly concludes that the idea of ever embedded market economy, which Polanyi failed to give proper name, is latent in TGT, 'even at its peak, market society is a hybrid, the attempted commodification of labour is combined with policies that embed and protect the working population'. Complete disembeddedness is an illusionary idea that underpins the idea of the self-regulating market. Recourse to Aristotle's idea of potentiality and actuality can shed some light on the matter. Namely, disembeddedness as an idea is potentiality without a teleological final form. The more form it acquires the more it is actualised in practice. It can evolve towards a greater degree of form, but the process cannot be ever completed because such moment presupposes the annihilation of the society. So, the idea of disembedded system is potentiality in its purest form.

We must note here that although Polanyi (1944: 06) envisaged the self-regulating market society as a construction, he indicated that ‘such a society may be unreal; yet it contains the bare bones of the construction from which the classical economics started’. It is exactly at this point where he underscores the importance of ideational structure and the intersubjective understanding. Beliefs and ideas produce material consequences and give rise to structures that constrain our choice. When certain ideas acquire the status of common sense, they become the intersubjective understanding that structures our perception, guides our conduct, and gives meaning to our social action (Bruff, 2011). Thus, when the idea of the self-regulating market becomes the belief of the age it is capable of generating real artefacts.

3.2.3. Static Representation of Change

Discursive institutionalists such as Blyth (2002: 7) criticise Polanyi’s theory of the double-movement on the grounds that it is interest-based, ‘sees change as a problem of comparative statics’ and ignores the importance of ideas. Blyth (2002: 7) claims that the institutional instability of the old order (feudal) cannot in itself explain why the particular form was acquired by the new regime (market society). Thus, he asserts the need to endogenise the process by taking ideas seriously. Blyth’s (2002: 7) remarks overly simplify Polanyi’s reasoning. Rather than seeing his comments as something that fundamentally challenges the validity of Polanyi’s conclusions, it can be read as a complementary exercise in determining the chain of causality. Polanyi’s choice can be justified with the objective of his research, which is radically different from the one of Blyth. Without lapsing into scientific determinism, Polanyi aimed to deconstruct the origin of the institutional instability, rather than the particular form of change it acquired. Even when he is abstracting a very powerful thesis from the contingent specificities, Polanyi (1944) accounts for the constant struggles that are

waged parallel on the labour, land and money markets between the two mutually exclusive principles of economic liberalism and social protection, i.e. *improvement* and *habitation*.

While it is true that when explaining the birth of new institution – the market society - Polanyi (1944: 160) claims that ‘the ultimate cause is set by external force’, he also notes that, ‘it is for the *mechanism of the change* only that society relies on internal forces’. Moreover, Polanyi (1944) makes it explicit that interests cannot explain much because they explain the ‘why’, but not the ‘how’ of change. I would go even further and claim that Polanyi engaged in a historic dialectical analysis, akin to Cox’s historico-dialectic approach (1987). Cox himself finds inspiration in Polanyi’s double-movement, which according to his was dialectical (Cox, 1996). Not only did Polanyi (1944) understand the patterned activities as being historically contingent, he also acknowledged the importance of ideas in the transformation of the historical structures. After all, he grants a central role to the idea of the self-regulating market in his explanation of the passage from the feudal order to *laissez-faire* capitalism.

Constructivists do not offer a substantiated claim when they accuse Polanyi of not paying significant attention to ideas and the material consequences of the same. Holmes (2012) rightly reminds us about the ideational aspects of Polanyi’s work. More often than not, Polanyi traces the birth of ideas and their proponents that gave rise to the self-regulating market. After all, Polanyi (1977) talked about how the belief in the gold standard was the established truth of the time. He stressed the ideational origins of the self-regulating market that he saw as a social construction. One of his main contributions was the successful debunking of the classical economics’ ideas, whose formal understanding of the economy has managed to reduce all social

relations to the means-ends dynamic and managed to crowd-out all other social purposes from the economy (Polanyi, 1977).

Despite Polanyi's (Polanyi, 1977) view that ideas play a formative ontological role, one thing sets him apart from constructivism. Namely, he granted equal footing to the material conditions of existence and the ideational sphere. It is his non-reductionist view of social reality that lends Polanyi easily to criticism from both the constructivists and the materialists. In the posthumously published book *The Livelihood of Man*, Polanyi (1977: liv) noted that the 'idealistic and materialistic approaches to history appear not so much as opposites but rather as outcomes of two different phases in the total process'.

3.2.4. Functionalism, Determinism and Naturalism

Dale's (2010) criticism is directed at Polanyi's contradictory leanings towards both voluntarism and functionalism, which prevent Polanyi from overcoming the dichotomy put in place by the classical economics. Dale (2010) reprimands Polanyi for reversing the dichotomy by portraying the market pattern as artificial and social protection as natural. While deconstructing the natural aura around the market, Polanyi reinstates another aura of inevitability over the social protection. Polanyi makes the same mistake as those whom he critiqued for holding certain human features as essential. While he is successful in showing how classical economists construct their theory by naturalising the human propensity to barter, he likewise built his double-movement thesis by naturalising the societal need for self-protection.

Although Dale's (2010) argument is valid, the question remains whether it is possible to engage in an exercise of deconstruction, without taking certain needs and interest as less alienating than the others, i.e. as more essential in evidently anti-essentialist

coordinates. In other words can we deconstruct a fallacy without temporarily anchoring certain notions as being contingently true? In my opinion, rather than naturalising the counter-movement, Polanyi portrays its emergence as contingently necessary and full of contradictions that can be only resolved within full embeddedness that in itself is a regulative ideal (actualised only within a Hegelian totality).

The necessity for self-protection arises when vital interests, people's livelihoods and nature are at stake once the market logic expands to uncontrollable proportions (Polanyi 1977). What is naturalised in the process is not the social protection, but the vital interests - survival of the society -, which is anchored as essential in a contingent manner. Moreover, the need for social protectionism arises only in a society where labour, land, and money are commodified. As such protection is not the ultimate progressive solution envisaged by Polanyi, but simply necessary. The necessity for it emerges only in the context of fictitious commodification. Although Polanyi has been discredited by Worth (2011: 122) as a mere social democrat and/or neo-protectionist, Polanyi was instead interested in the society whose organisational paradigm transcends the dialectics between the self-regulating market and social protectionism (Dale, 2010).

Dale is not alone in his critique of the functionalism present in Polanyi analysis. Block (2003) and Munck (2006) claim that there is great dose of inevitability in his conception of the counter-movement. There is some dose of truth in the above claim, but only when it comes to the need for counter-movement to emerge and does not pertain to the actual form and outcome that the counter-movement takes. The protectionism emerges because the idea of the self-regulating market is utopian. It is

true that Polanyi's double-movement thesis has an aura of inevitability that compels many scholars to construct a pendular like conception of reality. However, social change is contingent and Polanyi was not stranger to that idea. This thesis tries to avoid such portrayal and instead looks at the idea of a self-regulating market and the protection that it engenders as forming a dialectic that is contingent on a specific constellation of factors. Cangiani (2011) is right in his call to abandon the trend of representing the development of capitalism in oscillatory terms.

The only mistake that Polanyi makes when theorising the double-movement is not when he introduces a dose of inevitability, but when he denies consciousness on the part of those who promote protection. According to him, the counter-movement 'happened sometimes overnight and without any consciousness on the part of those engaged' (1944: 153). This point is striking because Polanyi blamed the Marxists for denying consciousness an autonomous status by proclaiming universally valid economic laws that determine action, yet he committed the same mistake when explaining the counter-movement. Any social unit that is under a threat reacts to preserve itself. However, that inevitability does not go beyond the need for self-protection, i.e. does not determine anything but the need for some sort of action, which requires consciousness on the part of those who introduce it. The counter-movement might be influenced by a universally valid norm of self-protection, but it must be actualised within a particular form situated in specific socio-temporal coordinates. The need for protection might be ahistorical, but the 'how' is not.

In his quest to disprove this thesis about the existence of a collectivist/socialist conspiracy, which was often attributed to the counter-movement, Polanyi (1944) forsakes consciousness, not realising that the lack of concerted action does not imply

a lack of consciousness. He wanted to present how the diverse protectionist actions, which were often promoted by people who believed in the principle of economic liberalism, were rooted in the wider societal interests. However, in doing so he *a priori* denied consciousness a role in the process. Granting consciousness a say in the counter-movement does not lead to a denial of the possibility of unintended consequences. Moreover, consciousness does not imply the existence of absolute autonomous subjects. Absolute free will is wishful thinking, but a concrete grounded freedom is not, and it presupposes the existence of consciousness. Žižek (2012: 466) provides a good explanation of the dialectics between necessity and contingency: ‘we are simultaneously more free than we think (we freely ‘posit’ the very necessity that determines us. This is why, to arrive at our ‘absolute’ freedom (the free positing of our presuppositions), we have to pass through absolute determinism’.

3.2.5. Polanyi’s Modernist Legacy

Yet, another aspect of Polanyi’s work that has been met with criticism concerns his epistemological paradigm. Holmes (2012) has charged Polanyi with a modernist understanding of reality because Polanyi’s objective is to deconstruct the classical economics’ fallacies, which in themselves presuppose the existence of an ultimate truth, whose existence is questionable from a post-modern epistemological standpoint. Holmes (2012), who advocates a turn to the discursive mode of production by incorporating ideational factors into the institutional analysis of change, is instead interested in a) uncovering the beliefs in the eyes of the beholders that render certain things as representatives of the truth, and b) deconstructing the structure and norms that supports that truth. This dissertation is sympathetic to the idea of integrating the discursive variables into the picture; however the very replacement of the search for ‘regimes of lies’ with ‘regimes of truth’ seems like a mere quibble over terminology,

as truth and lie are mere representations that function only in relation to each other. Effectively Holmes (2012) does not advocate a different approach to scientific inquiry than the one practiced by Polanyi, he only chooses to christen it differently. Holmes (2012) advocates the deconstruction of ‘regimes of truth’ that are projected as truth, while Polanyi aims to deconstruct the same as ‘regimes of lies’, which is allowed from a post-modern perspective as long as you posit that lie against a notion of truth that is itself temporally anchored as such within our hermeneutic horizon.

Post-modernity has tried to address a fundamental problem in the conditions of possibility of the process of acquiring knowledge. Namely, the problem of ‘undecidable’ self-referential field of language’ within which truth is enunciated (Žižek, 2012: 76). What this problem postulate is that: ‘the self-referential play of the symbolic process has no external support which would allow us to draw a line, within the language game, between truth and falsity’ (Žižek, 2012: 77). Žižek (2012) proposes a way out of this defeatist position, by acknowledging the truth of the symbolic order itself. Žižek (2012: 78) relies on Hegel to show how even when there is no meta-language where we can step out of our hermeneutic horizon – finite historical condition, we can draw the line that separates the truth from the sophists (in Polanyi’s case the classical economists) by ‘embracing the self-referential play of the symbolic with no external support of its truth...there is truth, but it is immanent to the symbolic process-the truth is measured not by an external standard, but by the “pragmatic contradiction,” the inner (in)consistency of the discursive process, the gap between the enunciated contend and its position of enunciation’. Thus, Polanyi can be rescued by the fact that there is not an abstract truth, but a concrete one *vis-à-vis* which one can evaluate the fallacies.

3.2.6. Polanyi and Marx

Finally, the last critique of Polanyi is levied against his inability to factor in certain important variables within his analysis of the birth of the market society, such as the relations and modes of production, the capitalist property relations, the primitive accumulation and the modes of accumulation (Worth, 2011; Burnham, 1994). It appears as if his aversion from Marxism and its economic determinism prevents him from conceptualising the complex nature of the socio-economic ties. The relationship between the society and the economy is asymmetrical because changes originate in society and affect the operation of the economic sphere. However, if the economy is constitutive part of society as he claims, then economic factors (which are by default social) affect the working of society at large. The mode of regulation is not the single determining factor because the mode of accumulation plays an equally important role in inducing change. The way to refute economic determinism is not by denying the economy an autonomous status, but by emphasising its social essence and the existence of other non-economic forces that drive change.

Polanyi (1957) acknowledges that the economy is integral part of society. That assertion applies even to those systems where people economise to the bone because such practices depend on the social reproduction of special types of individuals (Krippner *et al.*, 2004). Economising is enabled by the subjectification of individuals, through social relations, as economising, responsible, entrepreneurial, employable agents. A special type of rationality that renders the profit orientation desirable is the precondition for such a system to spur into being. However, the above does not imply that real change takes place only within society, which subsequently induces alterations within the economy because society does not operate outside the economy (Burnham, 1994). Polanyi (1944) by trying to avoid the Marxist fallacy of giving

primacy to the economic sphere relegates the economic to a realm that is subordinated to society. This can be corrected by conceptualising a process-centred ontology of the socio-economic relations. We have to eliminate the structure-superstructure representation of reality instead of merely reconfiguring what goes in the economic base and what emanates from it.

Marx (1906) was wrong to confer a causal role exclusively to the economic variables, and Polanyi (1944) rightly pointed out the role played by the state apparatus, the ideational factors, and the society at large. Nonetheless, in his analysis the importance of the economic base is downplayed; for example, the role played by the accumulation of capital. While this thesis in a Polanyian fashion acknowledges the deep rootedness of the system of production in the cultural norms and the rationality at a given period, i.e. the being of production is always actualised within a specific hermeneutic horizon, it tries to avoid the pitfalls of neglecting the importance of the material base. Thus, the escape from economic determinism should not be found in political voluntarism.

The way to recover from this criticism is by complementing Polanyi's analysis with Marx's (1906) ideas about the birth of capitalism. Streeck (2012b) has successfully followed this strategy, by cautioning against Block's (2012) suggestion of ditching the Marxist concept of capitalism for Polanyi's market society, when, in fact, they are not polar opposites. Polanyi (1944) is excellent in theorising the creation of the market pattern that has its origin in the commodification of land, labour and money. However, he fails to explicitly address the question of 'why' the free market of land, labour and money emerged in first place and only focuses on the 'how' they emerged – thanks to state intervention. For that matter, Marx's (1906) notion of antagonism

between the forces of production and the relations of production represents a viable complementary explanation for the ‘why’ aspect of commodification. Marx (1906) emphasises the crisis in feudalism as the starting point for the need for change.

In their subsequent narration of the development of capitalism Polanyi (1944) and Marx (1906) have many points in common. Their biggest convergence is the starting point of their theories: the critique of political economy. Both stress the role played by the law in the expropriation of the common land, which, in turn, helped liquidate the feudal order and establish the wage relations. Both authors underscore the coercive dynamic behind the creation of a free market for land and labour through dispossession. Both emphasise the dislocations created by the forcible generation of free-farmers who could now be absorbed by the emerging manufacturing orders in the town (dominated still by crafts production).²⁷ Both acknowledge the role of colonialism in the primitive accumulation that is the starting point of the genesis of the industrial production. Last but not least, both Marx and Polanyi identified a contradictory logic in the development of *laissez-faire* capitalism.

Polanyi (1944), like Marx (1906), stressed the importance of the Benthamite reforms which instituted the capitalist property relations as part of the basic individual freedoms. However, the point where Polanyi and Marx part is their emphasis on state intervention. While both authors refute the spontaneous emergence of capitalism from people’s propensity to barter, they disagree on the driving force behind certain reforms. For Polanyi (1944) the key is state intervention, while for Marx (1906: 789) that does not represent the full picture because ‘although the royal power, itself a product of bourgeois development, in its strife after absolute sovereignty forcibly hastened on the dissolution of these bands of retainers, it was by no means the sole

²⁷ The outlawing of poaching is a case in point.

cause of it'. The real cause was the revolution in the conditions of production. For Marx (1906: 196), legislation is secondary to the revolution; the enclosure acts were legal means in the hands of the landed new nobility that started appropriation by acts of violence.

Legally sanctioned means were used for the commercialisation of land and the proletarianisation of labour. However, Polanyi falls short of providing a satisfactory theory of the state (Burnham, 1994). Marx (1906) and the Marxists scholarship points toward the state-capital nexus that helped in the dissolution of the feudal system. Although Marx deprives the state of agency by conceptualising it as a mere tool, Polanyi under-theorises the operation of power at the state terrain and thus fails to capture the complexity of the struggles that more often than not were along class lines (Burawoy, 2010). Silver and Arrighi (2003) have likewise criticised the missing power relations in Polanyi's analysis of the creation of the self-regulating market.

One possible venue of reconciling Polanyi's (1944) emphasis on society and Marx's (1906) exclusive focus on the economy is to follow Žižek's advice (2006a). Žižek (2006a) proposes that the Marxist neglect of contingent political processes can coexist with the validity of the political critique of Marxism, which blames it for the reduction of politics to 'objective' economic processes. Namely, Žižek (2006a: 56) proposes a reversal, whereby, 'the field of economy is *in its very form* irreducible to politics—this level of the form of economy (of economy as the determining form of the social) is what French "political post-Marxists" miss when they reduce economy to one of the positive social spheres'. Thus, '[T]he key trap is not to be blinded by form, but to reduce form to a "mere form," that is, to overlook how the secret essence *needs* this form, how the form itself is essential' (Žižek, 2006a: 55).

This thesis perceives the state as an institutional ensemble and adopts Jessop's (2008) idea of strategic relational approach with its premise that the state exhibits variable geometry and strategic selectivity in that it is more susceptible to influences from some actors than from others. The strategic bias stems from the economically dependent position of the state on the economy for survival, and in our present predicament it depends on the capitalist production process. The state is neither a predefined entity with *a priori* inscribed interests. It is a relational formation, whose temporally anchored social function is defined by the situated interactions among different agencies. In Jessop's (2008: 31) view 'the state is neither a unified subject nor a neutral instrument but an asymmetric institutional terrain on which various political forces (including state managers) contest control over that state apparatus'. In our particular case, the EU is a special multi-level formation that 'forms a *dynamic topography* which is not composed of equilibrium states but rather of a series of transformations' (Kauppi, 2005: 5). The chapter on the disembedding tendency will explain how the above conception of the state can be extended to the complex configuration of the EU, which also exhibits strategic bias towards capital.

Like any author Polanyi (1944; 1957; 1963; 1977) can be blamed for not taking alternative paths or not factoring in certain variables. The above considerations do not in any way undermine the validity of his claim about the economy as an instituted process, which is a stroke of a genius. Regardless of its limitation, his conceptual apparatus is not obsolete. The merits of his work on the construction of the market society and its implications for society as a whole are useful beyond any doubt. Most of Polanyi's critics are sympathetic to his work and their function is to further his insightful analysis of the capitalist development. In what follows, the chapter will incorporate a few changes that overcome the identified weakness in his account.

3.3. Conceptual Apparatus

Following the previous section that addressed some of the main debates prevalent in the Polanyian scholarship, this section will discuss in detail the concepts that will guide the empirical exploration of the EU political economy. This section strives to define, delineate and explain the constitutive elements of the concepts of embedded and disembedded, the principles of *improvement* and *habitation*, and the notion of the *rate of change*. The chapter concludes by making conceptual clarifications about the term protectionism which should not be conflated with trade protectionism.

3.3.1. Embedding and Disembedding Tendencies

The Polanyian scholarship is marked by a lack of consensus on the question of the concepts of embedded and disembedded. While some scholars argue that Polanyi used the two concepts in descriptive terms, other scholars stress their purely analytical constitution (Hejeebu and McCloskey, 2004). Vančura (2011) is right to conclude that the concept of embeddedness is not underpinned by a single coherent meaning. This thesis identifies a combination of analytical and normative dimensions in the two concepts. I already discussed in the Conceptual Contradictions section that Polanyi did not think that the concepts mirrored the reality, but saw them as conceptual devices that help him master the socio-economic transformations (Gemici, 2008). The normative dimension arises from Polanyi's political commitment to an equalitarian society (Lacher, 1999). He constructed the concept of embedded to serve as the backdrop against which he could evaluate the market society (Hejeebu and McCloskey, 2004). The analytical and normative dimensions are closely related.

Having in mind the analytical and the normative dimensions of the two concepts, I propose treating them as *subjective evaluations* of real phenomena – modes of

operation of the socio-economic relations. They themselves have a special ontological status because they exist as imaginary reference points. In order to understand the nature of the two concepts, I resort to an analogy in the physical world; namely, that between the concepts of cold and hot and dark and bright. Those categories are just secondary qualities, adjectives that describe subjective evaluation of real phenomena: movement of atoms and presence of photons respectively. In the physical world there is not such a thing as cold, it is the absence of heat and there is no such thing as dark but absence of photons. The same goes for bright and cold. Cold and hot are not opposite, but subjective evaluations of the same thing. In a way the duality between the two is fictive and stems from our propensity to classify things in dualistic manner. Namely, cold and hot are only analytical categories and not ontological ones. Therefore, Jessop's (2008: 49) warning that 'it is important that analytical strategy does not set into an ontological dualism' is particularly relevant to our own concepts.

In the same way as cold and hot and bright and dark are adjectives to describe real phenomena (movement of atoms and presence of photons respectively), embedded and disembedded are evaluative qualities that refer to real social phenomena – the modes of operation of the socio-economic relations that have undisputed ontological status. The concepts of embedded and disembedded are not devoid of ontology as they exist, but have special categorical status that is worthwhile dwelling on. They have special ontological coordinates and exist as notional reference points. They do not denote only one specific state, but as evaluative qualities are predicated on multiple states in the same way as both +40 and +257 can be considered hot. They are not a thing-in-itself, but denote a specific mode of operation that is the thing-in-itself.

The above conclusion entices me to think of the concepts not as all-or-nothing phenomena, but as tendencies. Instead of thinking about particular social formations as being either embedded or disembedded as end state of affairs, we should conceptualise them in terms of tendencies. No social formation can be intrinsically embedded or disembedded; it is such only in relative terms in respect to its previous state or some ideal-types. In the social sciences we are dealing with social facts and we construct factual statements about them in the same sense as natural scientists do about natural facts (Hawkesworth, 2006). However, there is one profound difference between the natural phenomena and the social ones. Namely, in the social sciences we do not dispose of a reliable scale that evaluates real phenomena. For example we have a scale of continuous units to measure the temperature. Scientists using this scale can describe certain material as being +3, +44 or -120 degrees Celsius, which are factual statements. On top of that they can also issue normative statements, such as: ‘this matter is hot or cold’, which include value judgments.

However, in the social world we lack universally valid and reliable scales consisting of continuous and equal units to measure certain social states, such as the level of disembeddedness of the EU political economy. Nonetheless, we are forced to construct evaluative criteria in order to generate factual statements about the social world and it is at this point that social concepts acquire their normative dimension on top of their analytical. Weber (1921) argued that the empirically given is invariably related to evaluative ideas which give it a cognitive value.²⁸ Post-positivists have stressed that observation is theory-laden, which means that the objectivity of social phenomena is relative to our prior knowledge of it, to our perspective, to our presuppositions. The fact that there is no appeal to neutral scale “to adjudicate

²⁸ Weber (1921) rightly pointed out the difference between the observational explanation typical for the physical world and the interpretative explanation pertaining to the social realm.

between competing theoretical interpretations does not mean that there is no rational way of making and warranting critical evaluative judgments concerning alternative views” (Hawkesworth, 2006: 37).²⁹ The anti-essentialism does not prevent us from formulating any valid statements, but it rather reminds us about the limitations of the temporarily anchored social meanings (Howarth and Torfing, 2005).

The two concepts – embedded and disembedded - evaluate real phenomena - the modes of operation of the socio-economic relations - which consist of both ideas about the relation between the economy and the society and real structuring principles, rules, decision-making procedures and institutions. Holmes (2012, n.a.) is right when he claims that we should not neglect the ideational side because the distinction between the embeddedness and disembeddedness ‘is as much a distinction between two different ideational structures within which economic action can take place’. Both the embedding and the disembedding tendencies are predicated on social norms and contingent rationalities. Thus, the social character of the economic system that is underpinned by a disembedding tendency cannot be questioned, even in situations where the economic social relations and institutions have managed to acquire autonomy from the rest of the social relations and strive to economise the public sphere (Krippner, 2004; Dale, 2010). The economy is always an instituted process even when the economic social relations impose their rationality onto the non-economic social spheres (Block, 2003; Dale, 2010). The utopian nature of the self-regulating market notwithstanding, the neoclassical economics’ conceptions of the

²⁹ The differences between the social and the natural realm are more profound and this PhD cannot discuss all of them. Pragmatist contribution is not negligible in this respect. Pragmatists like Peirce who conceive of three different modes of scientific inference, deduction, induction and abduction demonstrate how the social real cannot be evaluated solely through sensory observation – the basic empiricist notion that is valid for the natural world. They believe that in order for us to understand the world we have to transfer the given “into a picture of the world ordered by necessary relations” (Hammerslay, 1989: 47). They are critical of Comte separation of first impressions of senses, which are products of physical operations, from the intellectual part of knowledge (Peirce 1965: 418). Instead they believe that we can detect some things without direct perception.

economy in a formal way can give rise to institutional structures that insulate the economy from democratic control, as was the case during the birth of the market society in the nineteenth century England (Polanyi, 1977).

The disembedding mode of operation comes to existence when the idea of the self-regulating market acquires a certain form that is never monolithic in effect (Peck, and Tickell, 2002). The four liberal myths as defined by Cutler (2004) can be seen as the ideational bedrock of the idea of the self-regulating market in the neoliberal era. Namely, the four neoliberal myths relegate the economic sphere to the private sphere which is conceived as a) naturally distinct from the public sphere, b) consisting of neutral processes of resource allocation, c) efficient, and d) constituted by non-coercive relations of power (Cutler, 2004). Although the idea is a social construct, it informs social action and produces tangible consequences. It conditions the institutional choice within a society which allows the marketisation of different social relations and the generation of fictitious commodities. It gives rise to a functional network that is hollowed out of any moral considerations and social control (Watson, 2005).

The more the idea of the self-regulating market is actualised in reality through specific policies and institutions, the more the society is operating under the mode of disembeddedness. One such institution is a completely independent central bank that is insulated from any democratic control, such as the European Central Bank. The Gold Standard, financial deregulation,³⁰ flat-rate tax system, preferential tax regimes, privatisation of welfare provision, marketisation of security, all signal the presence of the disembedding tendency. Chapter 4 which is dedicated to the disembedding

³⁰ Deregulation does not mean lack of regulation, but entails the establishment of self-regulatory and depoliticised framework (Konings, 2009; Cerny, 2008; Panitch and Konings, 2009).

tendency will attempt to bring to light those measures at the EU level that marketise the social relations such as: a) the privatisation of public utilities on the pretext of increasing European competitiveness, b) the depoliticisation of decision-making that obstructs democratic control, and c) the commodification of non-economic domains that transforms the knowledge provisioning domains into economising circuits. These policies constitute the core of the neoliberal agenda which envisages a market-led society marked by an ‘absence of institutionalized limits to economic gain’ (Streeck, 2011b: 148).

The transition from the old to the new-constitutionalism embodies within itself the idea of the self-regulating market, which as explained in the Notes on Polanyi (1944: 234) section does not presuppose the absence of state intervention. Although generally attributed to Gill (1995), the concept of new-constitutionalism was introduced by Polanyi in the TGT to denote those policy measures, such as the Gold Standard, that insulated the economy not from top-down meddling from the Crown as was the case during seventeenth century England, but from bottom-up democratic pressure. In the neoliberal era, the politics of depoliticisation represents the most insidious actualisation of the concept of new-constitutionalism. As will be explained below in the empirical chapters, the EU political economy is constituted by both rule-based and institutional depoliticisation that dispossesses the demos from decision-making entitlements (Burnham, 201). The EU is marked by a trend of technocratisation of the policy-making that postulates the issues as apolitical, which, in effect, removes political and moral considerations from key decisions that have direct distributive consequences on people’s livelihoods.

The disembedding tendency has pressed for the expansion of the market pattern, where the production, exchange and the distribution of goods is not linked with the needs for subsistence, but rather with the profit motive (Polanyi, 1977). The EU integration project is undoubtedly constituted by the disembedding tendency. Modernisation is the new banner that aims to bring competition at the heart of social and environmental policies, thus substituting the redistributive norm with one of efficient allocation of resources. While the post-war welfare state was predicated on both the market pattern and the pattern of centrality, in that the state was in charge of the redistributive measures, the new social and environmental provisions presuppose less equitable redistributive measures, which are not channelled through the pattern of centrality, but increasingly through the market.

The intensity of the disembedding tendency is directly related with the level of commodification of land, labour and money. The more we see the spreading of the commodity form, the bigger the intensity of the disembedding tendency. The marketisation of social relations, the commodification of knowledge, social provisions, reputation, and the human genome are all indicative of the presence of the disembedding tendency. Within the EU the most illustrative example of the spread of the idea of the self-regulating market, which Polanyi (1944) said implied extension of income generated by sale on the market, can be found in the trend of public utility privatisation pushed by DG Competition since the early 1990s (Buch-Hansen, 2010; Cini, 2013; Wigger and Buch-Hansen, 2012; 2014). A similar trend of extension of the market form can be seen in the environmental portfolio with the archetypical example of the carbon market.

The embedding tendency is predicated on a rationality that acknowledges the fact that the economic sphere is being intrinsically connected to the other non-economic realms (Streeck, 2011b). It enables social action that is not governed by the logic of the market alone. The economic sphere does not colonise the society as a whole and does not crowd out the pursuit of other non-economic interests, i.e. the motive of gain does not preclude other drives. Although the market is present, we lack a full commodification of labour, land and money. A society in which the *production for use* has completely eclipsed the *production for gain* can be considered to operate within more embedded framework. One example of ideas that underpin the embedded mode is the republican ethics where the corporation is seen as having a double role as citizen while it pursues its self-interests and as citoyens when it pays its dues to society on which it depends for existence (Scherer, Palazzo and Baumann, 2006). The idea of ‘common intellectual property’ and ‘reclaiming of public spaces’ are also predicated on anti-enclosure property relations that do not support price-making markets.

The embedding tendency implies that the resources necessary for people’s livelihoods are not predominantly allocated through the market and the moral dimension is not absent from the economic institution (Watson, 2005). In a social formation with a strong embedding tendency the centricity pattern reassures that wealth is redistributed among the members. The operation of the embedding tendency enables individuals to realise their multifaceted nature that goes beyond their labour capacity. A close approximation to the embedding tendency was the strong welfare state regime instituted in the twentieth century that had a fairly strong redistributive character. As it was explained in the section of the chapter discussing the main debates within the Polanyian scholarship, this thesis accepts Watson’s (2009) and Block’s (2003)

conclusion that in reality the social formation is a hybrid that embodies elements of each of the four ideal types of economic coordination: *symmetry*, *centricity*, *autarky* and the *market*. Although Polanyi (1977) noted that in reality these principles will meet halfway, he pointed that the barter principle is a special one because it gives rise not only to the market, but the market society as a demarcated institution that precludes the rest of the society.

One of the most important things to keep in mind is the fact that the embedding tendency is presupposed by the disembedding tendency. The dialectics between the two arises only within a system characterised by fictitious commodification. The more the disembedded tendency is realised the bigger the need for the embedding tendency to counter the dislocations created by the former. It is only within the realm of commodification that the embedding tendency emerges. We must also note here that the mere existence of embedding tendency does not in any way signify the emergence of a double-movement. Notwithstanding the common practice of conflating the two (see for example Copeland, 2009; Gills, 2009; Peter Evans, 2008), we must make a conceptual distinction between the two. While the existence of the embedding tendency is indisputable within the capitalist relations of production, the double-movement is questionable. According to Polanyi (1944: 247-248), the double-movement forms only when certain conditions are met: a) when the market society ‘refuses to function’, and b) when ‘revolutionary situation’ crystallises and society tries to escape a complete annihilation by the self-regulating market. This thesis refrains from speculating about prospects of a new double-movement. It rather restricts its scope to the analysis of the two tendencies and their dialectics.

Since we are talking in terms of tendencies, we are prevented from singling out particular states of affair as being embedded or disembedded in absolute terms. Both embedded and disembedded systems can take on multiple forms. A system can be embedded in extra-economic coercive relations or uber-misogynistic social relations. Embeddedness in itself is not always a progressive solution, especially if its redistributive pattern of centricity lacks the emancipatory dimension (Block, 2012; Hopkin and Blyth, 2012). Disembeddedness, likewise, can take various forms, so we can have a system where everything is commodified, including the parental care and emotions akin to Philip Dick's *Ubik* (1969).

When using the concepts to evaluate the socio-economic transformation within the EU, this thesis will attempt to map out the trajectory of each trend and juxtapose them against each other. For that matter, the project will not only look at the material facts, but will also examine the ideational changes in the EU policy discourse. When we conceptualise embedded and disembedded in terms of tendencies what gains importance is the trajectory taken by a particular socio-economic configuration. In this particular case, it is not useful to think about the EU as being either embedded or disembedded as the critical approaches often tend to do. Nor is it useful to confer onto them certain teleological elements or conceptualise them in linear terms. Rather, we should talk about the interaction between the two tendencies, which are protean, inconsistent and always conceptual. Now that we have established that the dis/embeddedness of the EU cannot be viewed in either/or manner, but only in terms of tendencies, I would like address the constitutive parts of those tendencies. Each tendency is animated by different underlying principles: *improvement* and *habitation*.

3.3.2. Improvement and Habitation

Polanyi (1944) used the principles of *improvement* and *habitation* in *The Great Transformation* (TGT) to denote those deliberate measures that improved the tools of production and those that dealt with the ramification of such improvement respectively. ‘Improvement passes as a synonym in the rest of TGT for the wilful extension of market logic in the name of economic progress, while habitation describes attempts to seek shelter in government interventions from the co-ordination of economic activity by price signals alone’ (Watson, 2009: 183). Polanyi (1944: 138) saw the double-movement as:

the action of two organising principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez-faire and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organisation, relying on the varying support of those most immediately affected by the deleterious action of the market – primarily, but not exclusively, the working and the landed classes – and using protective legislation, restrictive associations, and other instruments of intervention as its methods.

In his analysis, Polanyi made it explicit that the unfolding of economic liberalism was instantaneously followed by protectionism. Contrary to the ‘belief in spontaneous progress’, Polanyi (1944: 39) underscored the role of government in the extension of both the *improvement* and the *habitation* principle. By tracing the historical genesis of

the market society, Polanyi (1977) observed that the commodification of land and labour, which was secured through the enclosure movement that created competitive markets for land and labour, engendered counter-measures aimed at securing the wellbeing of the labour force. The self-protection of society arose as an imperative only in the context of commodification. He identified the labour movement during the industrial revolution as a corollary to the deliberate measures that introduced competitive labour markets (Polanyi, 1944: 73). A similar counter-tendency dynamic can be observed in the enactment of the anti-enclosure policy by the Tudors and Stuarts aimed at curtailing the profit orientation in the market for land.

I already discussed the question of inevitability that confers a dose of functionalism to Polanyi's analysis, especially when he denies consciousness to those who promote habitation. This thesis tries to avoid the functionalism beyond the mere need for self-protection, which depends on the level of consciousness on the part of those who are affected. The principle of *habitation* might be triggered by a universally valid norm of self-protection that is engendered by the operation of the principle of *improvement*, but it must be realised within a particular spatial-temporality and by particular forces.

In addition, this dissertation does not agree with the wave of claims in recent scholarship that proclaim the emergence of another counter-movement following the recent crisis engendered by the extension of the neoliberal doctrine. Such assertions rely on simplified notions of pendular swings that do not capture the dialectical interaction between the two operating principles (Cangiani, 2011). Dale (2012) rightly emphasises that the representation of capitalist development in oscillatory terms negates the actual dialectics within capitalism. Extrapolating an oscillatory framework from Polanyi's analysis fails to explain the qualitative changes that distinguish the

neoliberal regime from the *laissez-faire*. Framework centred around pendular swings lacks explanatory potential because it pre-emptively excludes the possibility of change, consequently what appears as the new regime is in essence the embodiment of the old and nothing but the old (Dale, 2010). Social change is contingent and not a function of the shifts of balance towards either *improvement* or *habitation*. Reality does not just oscillate between two possible superstates, thus we need to situate the two principles in their specific context, which conditions their interaction (Cangiani, 2011).

This thesis will try to examine the evidence for the operation of each principle in the EU formation. However, the results of their interaction cannot be *a priori* assumed to follow a specific swing order. Social change is contingent on the spatio-temporal context, which means that the principle of *improvement* in nineteenth century England is qualitatively different from the one that underpins the neoliberal agenda today. Likewise, the principle of *habitation* is constituted by protective measures which have different features from the ones Polanyi studies. Thus, a proper Polanyian analysis would not simply find evidence of protectionism and declare the emergence of another counter-movement or a Third Great Transformation, as scholars like Copeland (2009) and Peter Evans (2008) tend to do, but would rather evaluate the quality of those measures on their own terms. The evidence suggests that after a sole focus on *improvement* along neoliberal lines, the EU is realising the need for protection, i.e. the completion of the Single Market is not the sole focus, but we are witnessing a turn towards the notion of a socially cohesive and environmentally sustainable economy. However, the evidence suggests that the EU is promoting a new socio-environmental paradigm that stands in stark contrast to the *habitation* measures discussed by Polanyi because they themselves extend the commodity form. Instead of

precluding and countering the operation of the *improvement* principle, the new *habitation* principle furthers the marketisation of previously unaffected social domains.

The two principles of *improvement* and *habitation* should not be read in a functionalist fashion or treated as opposites that annihilate each other. Instead there is dialectic between the two that results in something new. The post-war settlement demonstrates that the operation of the principle of *improvement* did not disappear by giving complete supremacy to the principle of *habitation* (Dale, 2010). Rather, it points towards a contingent synthesis of two dynamics. Similarly, why should we expect the total demise of neoliberalism today, just because we are undergoing a phase of heightened *habitation*? The empirical chapters will try to unpack the complexity that results from the interaction between the two principles that dictates the *rate of change*. The *rate of change* is a very important notion that embodies the synergy between the embedding and disembedding tendencies.

3.3.3. Rate of Change

Improvement does not presuppose teleological progress, but is dependent on a deliberate social planning. The enclosure movements that lead to the commercialisation of land affected the social integrity of the feudal system. In TGT Polanyi evaluated the effect of the anti-enclosure measures that aimed to further *habitation* and stall the pace of the liberal *improvement* in the following terms (Polanyi, 1944: 39):

Why should the ultimate victory of a trend be taken as a proof of the ineffectiveness of the effort to slow down its progress? And why should the purpose of these measures not be seen precisely in that which they achieved,

i.e., in the slowing down of the rate of change? That which is ineffectual in stopping a line of development altogether is not, on that account, altogether ineffectual. The rate of change is often of no less importance than the direction of the change itself.

Polanyi (1944) was shrewd enough not to attribute the process of *improvement* to some spontaneous force. Instead he recognised the deliberate nature behind the unfolding of this trend. The dislocations caused by the acts of enclosure were made bearable thanks to the Tudors and Stuarts' slowing down of the *rate of change*, which was unintended consequence of the struggle by the aristocracy to maintain their privileges. In a similar way, we can say that the intensified focus on social and environmental protection on the part of EU public authorities serves the function of slowing down the *rate of change* that allows people to adjust to the neoliberal *improvement*. By preventing a total annihilation the socio-environmental measures recast the neoliberal *improvement* without necessarily leading to a radical break with the existing accumulation strategy.

Habitation does not only slow down the *rate of change*, but also the pace at which the *improvement* of the modes of production transforms the social formation. What matters most is not that *improvement* takes place within a decelerated time frame, but the fact that interaction between the *improvement* and the *habitation* generates a qualitative change. The principle of *habitation* highly present in the post-war settlement regime did not only slow down the *rate of change*, but it transformed the socio-economic reconstruction into a constructive process. The *rate of change* that embodies the interplay between the two principles is the process that allows humans and society to acclimatise to the new circumstances, thus providing a genuinely fertile

ground for a new synthesis. Synthesis does not imply a peaceful coexistence, but it can mean disruptive dialectic. A balanced unity is not necessarily the end result. The sublation of a contradiction does not automatically follow from the mere recognition of the contradiction (Brincat, 2011).

Watson (personal communication, 22.10.2011) rightly concludes that ‘the vicissitudes of the present predicament lays not in ‘the move towards disembeddedness per se which causes social and political instability - as so many of the Polanyians claim when invoking the double-movement concept - so much as the uneasy co-existence of conflicting institutional logics of disembeddedness and embeddedness’. In the Dale’s (2010: 62) reading of Polanyi we find three reasons for the disruptive interaction between the principles of *improvement* and *habitation*. The first is that the interference with the price mechanism through government intervention disturbs the expansion of the market. The second is the asymmetric dynamic between the national and the international levels. And the third reason is the inevitable contradiction between the separation of politics and economics.

What constitutes an embedded economy is highly disputed within the Polanyian scholarship. On the one hand we have the likes of Ruggie (1982) and Esping-Andersen (1990) who think the post-war welfare state represents embeddedness of some sort. The relatively stabilising force of the post-war coupling of the international liberalisation of trade with Keynesian domestic interventionism and capital controls (Hettne, 2002) was sufficient to deem the regime embedded. And on the other hand, we have Lacher (1999), Watson (2014a), Konings (2009) and Streeck (2012b) who oppose the idea of conflating embeddedness with any quasi-decommodifying tendencies. Looking back at the post-war settlement, Lacher (2007: 58) reminds us

that ‘the market remained self-regulating in principle even while its functioning was impaired because the underlying commodification of labour, land, and money, which is constitutive of the market economy, was not brought to an end’. Konings (2009) argues that the embedded liberal regime, by integrating workers as consumers, was characterised by a more stable expansion of the exchange relations than what is generally acknowledged in the historical narratives of Ruggie (1982) and Helleiner (1994). The protectionism provided by the welfare state instead of re-embedding the economy, only impairs the self-regulating market, which might be better characterised as a temporary stabilisation of an otherwise fragile settlement (Streeck, 2012b; Konings, 2009). Dale (2010: 75) reminds us of Polanyi’s awareness of the contradiction of the welfare state which ‘embodies tendencies to enhance social welfare... yet also represses and controls people, adapting them to the requirements of capital accumulation’.

Hence, I accept Lacher’s assertion that ‘it is only a re-embedding through the *de-commodification of land, labour and money* that can reassert societal control over the market; protectionism cannot achieve this purpose’ (1999: 315). The social policy instituted by the welfare state in the aftermath of the World Wars did not represent a decommodification of labour as argued by Esping-Andersen (1990), because labour was still relying on the wage relations. Unfortunately, the existing protectionism neither negates the primacy of the gain motive nor brings about the de-proletarianisation, but merely impairs the full functioning of the self-regulating market.

The recourse to the principle of *habitation* does not in any way constitute an embedded economy as defined by Polanyi because it neither negates the primacy of

the gain motive nor it brings about the de-proletarianisation of labour. Production is still organised for the sake of buying and selling and not for its use value. Not only is the profit motive not eclipsed by social and environmental considerations, but those considerations enter the picture as long as they do not jeopardise the realisation of profit and preferably create new opportunities for monetary gain. But, how does the socio-environmental protection reconfigure the relation between the economy and society that has been subject to continued disembedding tendencies with the unfolding of the neoliberal agenda?

While the promotion of the socio-environmental concerns does not embed the economy, it still manages to impair the full functioning of the self-regulating market. Even though it does not manage to reverse the disembedding tendency, it can be considered a policy success of some sort. However, it does not represent a total break from the previous neoliberal order that put in place all the social and environmental dislocations the protectionism purports to ameliorate. Protectionism is not a counter force or polar opposite of neoliberalism, but a rather complementary occurrence, which co-evolved with and reinforces neoliberalism. I am tempted to make reference to Jessop's (2003) analysis of the New Labour redefinition of Thatcher's 'two nation' hegemonic project because the protectionism engenders a similar change. Namely, the protective measures maintain the neoliberal accumulation strategy, while attempting to make the system more sustainable and inclusive. In doing so, they make the existing order even more hegemonic (Jessop, 2003). The empirical chapters will show the disruptive dynamics between the intensification of each principle.

The operation of the principle of *habitation* should not be glorified because its existence does not transcend the fictitious commodification (Lacher, 1999). Polanyi

(1944) does not see the self-protection of society as the ultimate progressive solution, because the need for protection arises only in the context of a self-regulating market. You take away the fictitious commodities and the protectionism loses its purpose. The progressive possibilities envisioned by Polanyi lies outside the coordinates of fictitious commodification (Dale, 2012; Watson, 2014a).

*

The above analysis strived to extrapolate an overarching theoretical framework that will inform the examination of the empirical evidence in the following two chapters. To that end, the chapter investigated Polanyi's interdisciplinary work on the organisation of the economy in various social contexts. Given that the main objective of this dissertation is to provide a Polanyian critique of the EU political economy, it was necessary that the theoretical chapter engages Polanyi's original work in greater depths. However, the chapter also discussed the contribution from the booming Polanyian scholarship which has gained some popularity in the aftermath of the recent financial crisis. This thesis will now proceed to the empirical appraisal of the socio-economic transformations of the EU.

EMPIRICAL PART: EVALUATION OF TENDENCIES

Given that the research aim is to assess the EU governance structure through a Polanyian lens, it is incumbent upon me to evaluate the historical development of both the neoliberalisation that underpins the disembedded mode and the socio-environmental protection that hints at a potential re-embedding tendency. While Chapter 4 aims to interpret the extension of the neoliberal creed, the subsequent chapter juxtaposes the disembedding tendency with the ever-growing social and environmental measures. The two chapters endeavour to probe into the dialectical interplay between the coexisting tendencies that are underpinned by the corresponding principles of *improvement* and *habitation*.³¹ The structure of the social order, which is conceptual, is influenced by the dialectical interplay between the two principles that in itself need not result into a sublation, but can turn into a parallax gap incapable of a mediated synthesis (Žižek, 2006; Brincat, 2011). Because this dissertation adopts a dialectical mode of reasoning that is attuned to the contradictions arising from the two tendencies, it is justifiable to say that the EU governance structure ‘is’ and it ‘is not’ disembedded at the same time. Such qualification, which stands in sharp contrast to the critical scholarship that unequivocally deems the EU disembedded, reflects Polanyi’s (1944) thesis about the always embedded economy (Block, 2003).³² This does not imply that a unity predates the emergence of the two tendencies, i.e. it is not that prior to the EU integration project the socio-economic configuration was marked by a state of complete embeddedness. This clarification is necessary in order to avoid the unsubstantiated criticism that accused Polanyi of romanticising the pre-modern societies (Inayatullah and Blaney, 1999; Block, 2003; Dale, 2010).

³¹ The principle of improvement and habitation roughly correspond to liberalisation and socio-environmental protection. Consult the theoretical chapter for detailed explanation.

³² See the Notes on Polanyi section for detailed explanation of the ever embedded economy.

The following two chapters aim to examine the concrete manifestations of the principles of *improvement* and *habitation* which constitute the disembedding and the embedding tendencies respectively (Polanyi, 1944, 1957, 1977). The Chapter 4 excavates the self-regulating logic inscribed into the EU edifice by looking at the historical development across three policy fields: competition, finance and education. The findings suggest that the disembedding tendency in the EU is evident not only in the monetary orthodoxy inscribed into the Economic and Monetary Union (EMU) since the Maastricht Treaty and further reified in the post-crisis period, but also in the privatisation, depoliticisation and commodification dynamics present in the three policy fields.

Chapter 5 aims to juxtapose the continued extension of the neoliberal creed with the ever-growing social and environmental policy output at the EU level. By comparative intervention in the social and environmental domains, this research project aims to question the optimism of the EU's socio-environmental restructuring narrative present in the works of Caporaso and Tarrow (2009), Copeland (2009) and Hettne (2002). Although the growing evidence of protection in the form of socio-environmental legislation signifies a turn towards *habitation*, I lodge a caution against an uncritical interpretation of the same. The most relevant question to ask in relation to the trajectory of the embedding tendency is the quality of the protection, not merely its existence. Namely, close examination of the content of policy output demonstrates the emergence of a new socio-environmental paradigm that secures protection through the market, which fundamentally redefines Polanyi's conception of protection. Contrary to the conventional way of delivering protection outside the confines of the market place, the new measures secure the habitation of humanity via the market form. This thesis recuperates a critical reading of Polanyi that emphasises the disruptive

dialectics between the disembedding tendency and the seemingly protective measures (Lacher, 1999; Streeck, 2012b; Dale, 2012). Namely, this thesis strives to uncover a problematic assumption about the primacy of the market form that underpins the novel socio-environmental measures.

However, this dissertation project does not stop at the unearthing of the structural bias towards the market mechanism that constitutes both the disembedding and the embedding tendencies, but would further a Polanyian (1977) normative critique of the market society by raising the moral question of whether the market should be allowed to expand into previously unaffected spheres, given its corrosive effects on the social fabric (Sandel, 2012; Lacher, 1999). In his critique of classical economics Polanyi (1977) argued against the evangelisation of the formal understanding of the economy, whereby the economising market rationality has substituted any other ethical and political concerns in the decision-making processes. Instead, Polanyi (1977) advocated the importance of a substantive rationality concerned with satisfying the basic human needs. Unfortunately the danger of the extension of competitive price-making markets, whose only objective is the profit motive, is multiplied nowadays under the new socio-environmental paradigm because it is especially within the socio-environmental domains where the multifaceted nature of human needs comes to the fullest.

This research launches a Polanyian (1977) critique of the New Public Management paradigm which imposes the allocation of scarce resources as the overarching concern onto society. It argues that the way a service is delivered matters more than whether it is delivered at all (Hopgood, 2009). The market and alternative organisational structures vary in their ethical commitments in that the former does not recognise

protection as a right, but as a service that can bring revenue if the price is high enough. Hopgood (2009) is right in his conclusion that if it is difficult to object to the penetration of the market in all social spheres on superior functionality grounds, then we might subjugate it to some ethical tests. The profit-seeking orientation of the market disqualifies it from any humanitarian, and for that matter any socially and environmentally protective, task (Hopgood, 2008).

The analysis in the following chapters is based on a reading of both primary legislative acts accessed via the EUR-LEX database and classified in the NVivo software and secondary literature reviews. The former consist mainly of a) primary sources of EU law, such as the Treaties, b) secondary sources, such as the Regulations, Directives and Decisions, and c) case law of the ECJ. In addition, this dissertation will investigate various policy initiatives such as Action Plans, Agendas, Strategies, Flagship Initiatives and so forth, which despite their non-legally binding nature constitute the policy landscape of the EU and exert cognitive power capable of constraining the policy manoeuvrability of member states. Constructivists have underscored the relevance of the voluntary policy mechanisms that rests in their productive power to discursively shape the intersubjective understanding of common problems, which, in turn, engenders possible solutions while delegitimising other alternatives (Barnett and Duval, 2005b; Ruggie, 1982, Wendt, 1992; Hasenclever, Mayer and Rittberger, 2004; Sabel and Zeitlin, 2010).

Chapter 4 Disembedding Tendency

History repeats itself, 'the first time as tragedy, the second time as farce'

(Karl Marx, 1852)

Although the idea of European unity dates from further back in history, it was not until the post-war period that we witnessed some definite steps towards that direction (McCormick, 2008). The immediate memory of destruction following the two World Wars gave impetus for the creation of an edifice intended to prevent the future outbreak of war (Ravenhill, 2008). In the years following 1945 the security motive enticed European leaders to engage in various cooperative arrangements, such as: the Economic Commission for Europe in 1947, the Brussels Treaty Organisation in 1948, the Organisation for European Economic Cooperation in 1948, the North Atlantic Treaty Organisation (NATO) in 1949, the Council of Europe in 1948 and the Western European Union in 1954 (Ali El-Agraa, 2004). One of the most valuable steps in the unification of Europe was the creation of the European Coal and Steel Community (ECSC), envisaged by the Schuman Declaration in 1950 and inspired by Jean Monnet (Oudenaren, 2007; Centre Virtuel de la Connaissance sur l'Europe, 2013). The Treaty of Paris in 1951 inaugurated a genius arrangement whose supranational character eradicated the fears of uncontrolled German economic expansion. Four institutions that followed the logic of division of power among the executive, legislative and judiciary authority were envisaged with the Treaty.

Although the 50s witnessed one failed effort for enhanced cooperation in the form of a European Defence Community in 1952 and European Political Community in 1953, that decade was also marked by the signing of an agreement with the most transformative potential in the history of Europe (Ali El-Agraa, 2004; McCormick,

2008). The Spaak Committee enabled the creation of the European Economic Community (EEC) and the Euratom established with the Rome Treaty in 1957 which relied on the same institutional template as the ECSC (Tiersky and Jones, 2007). With the Merger Treaty in 1965 the institutional structures of the ECSC, the EEC and the Euratom were integrated into a common edifice comprising of a single Commission and a Council. The 1980s brought a fresh impetus to the Single Market Project, while the 1990s witnessed the signing of the Maastricht Treaty which transformed the European Economic Community into a European Union with two additional pillars devoted to the Justice and Home Affairs and the Common Foreign and Security Policy. The three pillar structure was abolished with the Lisbon Treaty. Throughout the decades the membership base expanded incrementally from the initial six member states to the current twenty eight members, excluding the few countries awaiting accession approval.

Nobody could have predicted the transformative potential of the EU undertaking and its enormous effects on the nation-state. Despite the great discrepancy between the extensive regulatory functions and the minimal redistributive politics, evident in the relatively insignificant budget of the Union that accounts for a mere 1% of its GDP, the EU represents a highly institutionalised system with significant distributive consequences (Hix and Høyland, 2011; Jørgensen, Pollack and Rosamond, 2006). Throughout its relatively short period of existence, the EU has undergone both extensive and intensive integration. The former process entails the ever-expanding dynamic of the membership base, which some scholars have warned has come at the expense of building a more socially cohesive Europe (Vaughan-Whitehead, 2003). The second process of intensive integration consists of two dynamics: functional enlargement and deepened integration. While functional enlargement embodies the

process of *spillover*, whereby policy areas are incrementally becoming subjects of the EU governance processes, deepened integration entails the removal of barriers, i.e. institutional convergence (Sweet, 2009; Saliba, 2010; Jensen, 2007; Sweet and Sandholtz, 1998).

The EU is not a mere intergovernmental ordering with an extensive delegation of powers. Such characterisations only naturalise the state by ignoring the new reorganisation (Jessop, 2008). The EU is characterised with a unique political system, which although is not a state in a traditional sense in that it does not command a monopoly of violence and taxation, it populates a political realm that engenders both regulative and redistributive changes (agriculture, regional policy) (Hix and Høyland, 2011; Jørgensen, Pollack and Rosamond, 2006). The EU consists of processes of governance that unfold at multiple levels (Marks, Hooghe and Blank, 1996),³³ which make the conventional way of explicit ordering of the national-international obsolete within Europe. Instead, the EU is an implicated order where multiple actors participate in the exercise of power within a dynamic topography marked by a simultaneous convergence and divergence of policies (Heins, 2008; Boli and Thomas, 1999; Kauppi 2005).

Although I accept Hix and Høyland's (2011) qualification of the EU as a political system, I want to avoid a reified understanding of its structure. In the same way as scholars have warned against a conception of the state as a real 'thing' (Bruff, 2011), we should be cautious of reproducing the same mistake with the conceptualisation of the EU political system. The EU should be studied as a historical product that is the result of 'the materialization of human thought/action in regularized practices that

³³ Though governance here does not presupposes the existence of separate spheres of politics (Haahr, 2004)

appear ‘real’ and ‘state-like’ by way of the implementation and enforcing of laws, procedures and conventions’ (Bruff, 2011: 88).

This thesis asserts that the EU embodies a unique political sociology, deeply integrated economy and an emerging civil society (Nanz, 2006). The EU governance framework has the attributes of a public authority that is backed by both a legally binding regulatory framework and other non-binding governance instruments, such as the Open Method of Coordination and the European Semester. Likewise, the EU economy is not a mere sum of its member state’s economies, but represents a deep integration of these markets backed by a common currency for most members. In purely abstract terms there is an external necessity for a European civil society, however thin, to emerge out of the dialectics between the regional economy and the transnational political architecture. Keane (2003: 27) has rightly observed that ‘historically speaking, the institutions of civil society were never exclusively ‘national’ or constituted by their exclusive relationship to the nation-state’. Although critics have identified a lack of an EU public sphere, this thesis accepts Nanz’s (2006) inter-discursive model of public sphere that is not grounded in a demos, but in a communicative dynamic.

The EU’s complex ordering of its legislative, executive and judicial power has not made the state obsolete; instead it continues to play a major role in the intergovernmental decision-making processes. Nonetheless, there are other actors who exert tremendous influence in the day-to-day policy-making of the union (McCormick, 2007). The European Parliament and the Council of the European

Union, known as the Council of Ministers,³⁴ are the main legislative bodies under the EU bicameral system.³⁵ Although it is far away from the standards of democracy evident in the national parliaments, the EP has incrementally increased its law-making prerogatives starting in 1979 when it started to get directly elected, which, in turn, democratised the EU governance (Hix and Høyland, 2011; Tiersky and Jones, 2007). The Single European Act, the Maastricht, the Nice and the Amsterdam Treaties have expanded the role of the EP from its original consultative role to one of cooperation and co-decision, in addition to increasing its policy area competences (McCormick, 2011). The Treaty of Lisbon predicts three different roles for the EP: consultation, consent and the ordinary legislative procedure (Hix and Høyland, 2011). In the year 2012 the EU passed 2062 legal acts, 1234 Regulations, 105 Directives and 723 Decisions. Up until 2012 the EU has passed a total of 112 140 Regulations, Directives and Decisions, which demonstrate the reach of its policy-making process (EUR-LEX).

Another noteworthy, yet often ignored, aspect that makes the EU political system unique is its juridical system (Maher, 2007). The Lisbon Treaty conferred a legal personality to the EU, which has the capacity to conclude international agreements and participate in international organisations (Dony, 2009). What underpins the EU is a legal order with its own supreme and directly applicable law and courts, the

³⁴ The Council of Ministers should not be confused with the European Council which consists of the heads of states and its own president, which is in charge of deciding the strategic policy direction of the Union.

³⁵ The EU disposes of dual executive arrangement, whereby the European Commission and the Council share the responsibility for initiating legislation in Community and intergovernmental matters respectively. The Council executes the Common Foreign and Security Policy, macroeconomic policies and the budget. The EC is in charge of monitoring the implementation of EU regulations and as a cabinet is predicated on a collective responsibility. The president of the EC is elected by the EP on proposal by the Council. Though the EP could censor the whole Commission even from the time of the Treaty of Rome, the Amsterdam Treaty granted rights to the EP to veto the President of the EC (Hix and Høyland, 2011). The President of the EC presents annual work program, while the Council present a six months plan to the EP. Even a question time was introduced.

European Court of Justice and the Court of First Instance that have jurisdiction to conduct judicial review, observe the consistent application of the EU law, are in charge of infringement procedure and issue preliminary rulings (Maher, 2007). Although the doctrine of supremacy of the EU over the national law was not stipulated in the Treaties, through the case law the ECJ has resolved the potential conflict in favour of the European law (*Costa vs. ENEL* ruling C 6/64). Likewise, it is through the case law (*Van Gend en Loos vs. Nederland Inland Revenue Administration* ruling C 26/62) that the ECJ has secured the doctrine of direct effect of EU law which expands the rights and obligations beyond the state to the individual, which in turn, make the EU law more than a mere international legal order (Maher, 2007).

The complex ontology of the EU legal system has been subject to contrasting arguments between the legal pluralists, who identify the emergence of a post-national law with no single centre of hierarchy, and the constitutionalists who argue for the existence of a hierarchically ordered legal system where the basic normative framework is not contested (Shaffer, 2010). Although the national legal orders are still effective, the EU legal system emanates with authority that poses the question of hierarchy among the coexisting legal norms. Despite the legal pluralism (multiple systems coexisting alongside in a hierarchal way), the EU legal order can be considered constitutional because it is governed by meta-norms (Sweet, 2009).

The EU has a wide policy reach; however each policy domain is marked by a varying degree of in-depth policy institutionalisation. The Lisbon Treaty stipulates three types of competences: a) exclusive where only the EU is entitled to legislate, b) shared between member states and the Union, and c) supportive where the Union role is

residual and merely complements the member states' legislative efforts (Dony, 2009). The lack of an exclusive competence in certain areas should not be conflated with a lack of influence in the given policy domain. As Jessop (2008: 20) nicely puts it 'the absence of a European army-police, constitution, and massive budgets may be less important than the EU's ability to mobilise organised intelligence and other forms of soft intervention'. In the past decades we have witnessed an increase in the activities that fall within the realm of high politics commonly associated with national sovereignty, such as foreign, security and defence and interior policies (Hix, 1999).

The above conceptualisation of the EU political system is necessary, but not sufficient in furthering our understanding of the consequences of the reconstruction of the EU polity. To that end, this thesis adopts an emancipatory mantle and follows the efforts of the critically inspired scholarship that has problematised the consequences of the EU integration. This thesis is inspired by the likes of Harmes (2006), van Apeldoorn, Drahokoupil and Horn (2008), Höpner and Schäfer (2010a, 2010b), Horn (2012), Bieling (2011), Overbeek and van Apeldoorn (2012) and Overbeek (2012) who have identified an underlying incremental marketisation within the EU project. Unlike the corporatists and the pluralists who focus mainly on the groups sanctioned by the state and conceive of the political game as an open structure (Richardson, 2006; Christiansen and Piattoni, 2003), the critical scholarship identifies a structural selectivity within the constitutionally asymmetric European polity (Jessop, 2008; Overbeek and van Apeldoorn, 2012).

This chapter maps out the disembedding tendency instigated by EU policies. The attempt is made to reorient our attention to the consequences of the EU integration project, rather than the exact mechanisms through which particular agents shape

different constitutive parts of the social order. Although the pursuit of the question of who are the exact actors who stand behind the neoliberalisation of any given policy field remains legitimate, the objective is not to process-trace the specificities of each single act of commodification in isolation. The commodification of the socio-economic order is more significant than the sum of each separate extension of the market form. Therefore, I intend to tease out the structural features of the general neoliberal tendency rather than lapsing into a pluralistic territory that lacks critical enunciation (Macartney, 2011). This thesis rejects a pluralistic understanding of agency and is instead concerned with a meta-rationality that constitutes each social action, which is in line with Polanyi's (1944) view of the lack of a single subject who secures protection, but is something that society does it for itself.

Political pluralism, illuminating as it is, fails to look at the equally important structural features of the EU political system. An agent-centred research, which tries to process-trace the causal link that brought about change in a contingent manner, might show which particular coalition of actors pushed forward the agenda, be it the member states (Moravcsik, 1991), the supranational actors (Sweet and Sandholtz, 1998) or powerful financial services providers (Mügge, 2013). However by focusing on the 'who' we miss the fact that they each are constituted by a 'common structural force' (Cox, 1996: 516). The purpose of this study is to make sense of and problematise the resulting outcome of the struggle, all the while acknowledging the contingent processes that give rise to such configuration. It is the structure, which is purely conceptual, that necessitates the need for change, although there are concrete actors who engender the change itself. The following quote by Polanyi (1944: 247) captures the importance of structural factors: [T]o imagine that it was the strength of the movement which created situation such as these, and not to see that it was the

situation that gave birth in this case to the movement, is to miss the outstanding lesson of the past decade'.³⁶

My affinity towards Polanyian and critical scholarship distances myself from searching for the singular political agency that pushes forward the market mechanism. Jessop's (1990: 359) influential claim that 'the structure of the social world is always more complex than any social force can conceive and its overall evolution lies beyond the control of any social force' resonates well with the purpose of this PhD. The epistemological implications of the neglect of the particular agents are not detrimental for the critical dialectical scholarship because the undeniable power of agency to shape outcomes does not prevent us from retrospectively positing the necessity of that very contingency (Žižek, 2012).

How would Polanyi have explained the EU predicament? When Žižek (2009: 6) defends the contemporary relevance of Hegel, he claims:

The only way to grasp the true novelty of the New is to analyse the world through the lenses of what was 'eternal' in the Old... eternal not in the sense of a series of abstract-universal features that may be applied everywhere, but in the sense that it has to be re-invented in each new historical situation.

So a new question imposes itself: what are the present modalities of the *Old Idea* of the self-regulating market? Is the EU disembedded? Does the recent surge in socio-ecological legislation purport to embed the market? I argue that in the aftermath of the crisis we are witnessing a heightened extension of both the embedding and the disembedding tendencies, which are surprisingly being predicated on the same

³⁶ He is talking about the revolutionary situation in the 1920s and 1930s.

commodifying logic. In what follows, I try to unpack certain dynamics within the disembedding tendency.

Before we proceed with the empirical analysis it is necessary to make a conceptual intervention in the present neoliberal modality of the self-regulating market idea. In this chapter the neoliberal episteme or creed, which sustains the new modalities of the old idea of *laissez-faire* liberalism, is understood within a governmentality that constitutes actors (Barnett and Duval, 2005b). Neoliberalism is amongst the most contested of concepts (Cerny, 2008; Springer, 2012); therefore a few points need to be clarified before we proceed with the examination of the neoliberalisation of the three EU policy fields.

- a) Neoliberalism under no circumstances implies the hollowing out of the state, but rather a redefinition of the public purpose, whereby major regulatory choices are depoliticised (Major, 2012). Konings (2009), Cerny (2008), Abdelal (2007), Panitch and Konings (2009) and MacKenzie (2005) persuasively argue for a deconstruction of the deregulatory myth of neoliberalism by showing how the increased financialisation of the economy is predicated on enhanced pro-competitive re-regulation. The expansion of financial markets within the post-Fordist era does not presuppose a state retreat, but rather a redefinition of the interventionist model and institutionalisation of new organisational linkages that are market-based (Gamble, 2009; Brenner, Peck and Theodore, 2010). What matters, in turn, is the quality of the regulatory framework, not its mere existence (Hopkin and Blyth, 2012). The new governance engendered by the de-legitimation of the Keynesian interventionist state is predicated on a 'selective transfer of state capacities upwards, downwards, and sideways, as intervention is rescaled'

(Jessop, 2002: 454). Moreover, the neoliberal ascendance did not roll back the state in terms of spending, it only redefined the redistributive system and the way it was funded and managed (Gamble, 2009).

- b) Another point that needs to be clarified is one conceptual mistake committed by scholars like Konings (2009), Panitch and Konings (2009) and Cerny (2008), who tend to conflate re-regulation with embeddedness. From a Polanyian perspective such assertions are not admissible. While these scholars have correctly identified the growth of new institutional linkages that augment state capacity in the neoliberal era, they err in interpreting such a predicament as embedded neoliberalism. I follow Dale's (2010) advice of differentiating between the embedded and the instituted conditions of the market, which allows us to acknowledge that all socio-economic orders are instituted within the social life, yet can be disembedded in the sense of the absence of a moral dimension (Watson, 2005).
- c) Neoliberalism is a particular socio-temporal expression of the idea of the self-regulating market, whose origin according to what seems to be a settled historical narrative can be traced back to particular individuals, groups and institutions, like Alexander Rüstow, Hayek, Friedman, the monetarist school, Mont Pèlerin Society, the Cato Institute (Cerny, 2008; Harmes, 2006; Armijo, 2001; Gamble, 2009). From its very first actualisation in Chile to its hegemonic status today, neoliberalism has undergone different stages, through which it has managed to a) first de-legitimise the previous Keynesian policy framework, b) then consolidate itself by compromising the ideologically purist' projects of Thatcher and Reagan, and c) finally generate the Third Way (Peck and Tickell, 2002). Although generally associated with right-wing governments and Wall Street's interests,

neoliberalism was entrenched thanks to disillusionment among the European Left, especially within France (Abdelal, 2007; Abdelal and Meunier, 2010).

- d) Neoliberalism is not a mere reappearance of the old *laissez-faire* liberal order, but instead involves a qualitative mutation of the old doctrine. However, while Foucault (2010: 121) claimed that the new neoliberal order presupposes an active governmentality, contrary to the traditional liberalism, Polanyi (1944) has persuasively demonstrated that even *laissez-faire* liberalism was not synonymous with non-intervention. Thus, this PhD argues that both the liberal and the neoliberal manifestations of the idea of the self-regulating market imply an orchestrated construction, whose contingency can be credited for the differences between the two. It leaves it to the theorists to debate if we are talking about continuities in the *longue durée* or real qualitative changes in the idea of the self-regulating market.
- e) The material form acquired by the idea of the self-regulating market is only homogeneous at the level of ideology, but in practice it is always hybrid and full of compromises, which have made it compatible even with nationalism (Harmes, 2012). Thus, neoliberalism should not be seen as a single coherent policy with uniform results, but a pragmatic response that is always variegated and multidimensional and often grafted upon existing social settlements including the social democratic one (Harvey, 2005; Hermann, 2007; Hall and Lamont, 2013; Schmidt and Thatcher, 2013). Moreover, the uneven development of neoliberalism should not be seen as a transient feature that is ‘a product of its ‘incomplete’ institutionalization, but one of its constitutive features.’ (Brenner, Peck and Theodore, 2010). It is this mutability of the form, secured through metamorphosis, absorption or hybridisation, all the while preserving the focus on

the core principle of competitiveness, which makes neoliberalism resilient and adaptable (Schmidt and Thatcher, 2013).

- f) Neoliberalism is a discourse (Springer, 2012), and as such it is composed of a productive power, which operates through constitutive social relations that precede the subjects' position (Barnett and Duvall, 2005; Foucault, 1976). In contrast to the direct structural power conceptualised in the Marxist scholarship, within the neoliberal governmentality approaches the exercise of power is discursively exercised through the production of certain truths via the system of knowledge (Zimmermann and Favell, 2011; Barnett and Duval, 2005a). The discursive production of meaning is performative in that it produces self-disciplining and normalised subjects and realities rather than merely describing them (Lipschutz, 2005). The neoliberal discourse is not deterministic, but can constrain the realm of possibilities of the subjects by constituting them with certain forms of rationality (Springer, 2012). It delegitimises the macroeconomic intervention in the economy and promotes a new micromanagement centred on the new vocabulary of efficiency, flexibility, employability, competitiveness and entrepreneurship (Fougner, 2006). The process of subjectification does not rob the actors of agential potential, on the contrary it is only when we have constructed special subjects that are now endowed with agential potential that they cease to be mere objects of the exercise of power, but become subjects through which power operates. One very useful analytical tool that has gained traction recently is the discursive institutionalism framework developed by Vivien Schmidt (2008) which provides a dynamic lens of looking at discourse, be it coordinative or communicative, and its sustentative content: the ideas happening at the level of policies, programs or philosophies.

Given the problems with the previously monolithic understanding of neoliberalism as a coherent entity, recently the focus of the scholarship has moved towards a processual analysis of neoliberalisation (Springer, 2012; Neil, Peck and Theodore, 2010). This trend resonates well with this thesis, which goes a step further in distancing itself from the conceptual legacy of operationalising disembodiedness as an all-or-nothing phenomenon; and instead prefers a characterisation of the concept in terms of tendency underpinned by the actualisation of the *improvement* principle (Polanyi, 1944). It is not an easy task to project a moving map of the neoliberalisation of the EU polity, partly because of the complex ontology of the political field (Jørgensen, Pollack and Rosamond, 2006; Zimmermann and Favell, 2011). However, the endeavour is not directed at projecting a totalising picture of all the uneven spatio-temporal transformations, but to provide a comprehensive interpretation of multiple liberalising enactments by relating them within an abstract framework capable of retrospectively explaining the restructuring of the EU (Harvey, 2005). To that end, the next three sections look at various struggles across the policy domains of competition, finance and education by relating them within a broader trend of the extension of the market creed within the political sociology of the EU.

The selection of the three policy fields is not intended to provide a comparative policy analysis. Instead, the aim is to extrapolate a common trend, the commodification of social relations, within policy areas characterised not only with binding legislative procedures, but also with soft-law instruments, like the Open Method of Coordination (OMC), which is a policy instrument introduced first under the European Employment Strategy in 1997 and inaugurated by the Lisbon Agenda in 2000 (Telò, 2002; Goetschy, 2002; Sabel and Zeitlin, 2010; Tholoniati, 2010). Although the voluntary nature of the OMC has led scholars to interpret it as an impotent instrument

in allocating values, it is in the very virtue of the OMC that its discursive potential comes to the fullest, whereby, as Franck (1988) persuasively explains, the compliance pull of the voluntary arrangements stems from the ‘power of membership’ and the strong sense of obligation rather than any coercive force. The OMC is a constructivist strategy *par excellence*, whereby actors - through reporting, benchmarking, peer review and monitoring - change the intersubjective understanding that constitutes their realm of possibilities (Kratochwil and Ruggie, 1986; Wendt, 1992). What matters is the communicative dynamic of problem construction, i.e. ontological persuasion, rather than the behavioural effectiveness of the norms (Hasenclever, Mayer and Rittberger, 2004; Hülse, 2007).

The marketisation of social relations across policy fields does not depend on the existence of binding legislative measures, but can be propagated via soft-law instruments. Moreover, the process of marketisation, i.e. the disembedding tendency, does not entail a uniform effect of EU law across the member states. The EU is rampant not only with a transposition discrepancy among countries, but also across sectors (Haverland, Steunenberg and van Waarden, 2011). However, the objective is not to explain the differences, but to find a common niche that informs the philosophy of the three policy fields marked with a dynamic topography. Herein, I follow the advice of Streeck (2012b) who advocates a return to the exploration of the commonalities of capitalism rather than its varieties.

The Single Market has grown to become the largest in the world overpassing the USA economy by almost two trillion dollars (Eurostat, 2013a). The EU integration project is not instantiated only upon its trade and custom union, but upon a Common Market with its own rules and procedures (Hix and Høyland, 2011; Majone, 1999). Starting

from its inception, the EU has witnessed an incremental removal of barriers, tariffs and institutional impediments to the four freedoms, with the end result being a deep integration of the member states' markets into a coherent regional economy. The Single Market has augmented its potential from the time when the European Economic Community was created with the Treaty of Rome in 1957, to the time of deepened integration with the Single European Act in 1986 and the Maastricht Treaty in 1992 that envisaged a formation of a monetary union (Cini, 2007; Schmidt, 2009; Rosamond, 2000; Hix, 1999; Sweet and Sandholtz, 1998; Moravcsik, 1991).

The following sections investigate how the extension of market rationality within different policy fields crowds out different purposes. It starts with examination of competition policy which in the pursuit of competitiveness has successfully pushed for the liberalisation of public services. The chapter then moves to the examination of financial market integration in the EU that serves as a fitting contrast to the previous policy area which has always been an exclusive competence of the EU. Unlike competition policy, the scaling up of the financial portfolio has undergone a tremendous change from the time of having a mere coordinating role to the implementation of harmonised financial regulation and a Banking Union. The chapter concludes by examining education and training policy, which provides yet another contrast because it examines the spread of the neoliberal creed in a domain marked by soft-law legislature.

4.1. Competition Policy

Competition is one of the core policy areas in which the EU has an exclusive competence to adopt legally binding acts (Article 3(b) of TFEU). The constitutional base of the policy exists from the Treaty of Rome, wherein Article 3(f) prohibits the

distortion of competition in the Internal Market and Articles 85-90 further establish the competition provisions. The institutionalisation of the Community competition policy with the initial Regulation in the 1960s (17/62/EU) and the establishment of the DG was a novelty for all the member states, except Germany, which already had competition regulation (Cini, 2013). Contrary to the inaugural stage of the policy development where ECJ jurisprudence played a major role and the Commission's competences were limited to antitrust matters, in the late 1980s the Commission resorted to legislative rule-making and managed to expend its prerogatives to include regulation of mergers (Akman and Kassim, 2010).

The current significance attached to the policy domain was not always given. On the contrary, the EU's commitment to enforcing its competition provisions was partial (Buch-Hansen and Wigger, 2010). The 1960s and 1970s were marked by a tolerant attitude towards state subsidies to chosen industries. The heydays of the welfare state were characterised by financial support to these European champions, which were projected as the potential contenders to American corporate predominance. The member states' active efforts in the creation of economies of scale were subject to a flexible interpretation of the competition provisions by the Commission authorities, despite the legal basis for prohibitive measures.

The initial lenient approach to state aid practice ended with the nascent of the neoliberal accumulation strategy. The over-accumulation crisis in the 1970s and the disintegration of the Bretton Woods system instigated a search for a more profitable investment outlet that resulted in a transformation of the Fordist accumulation regime into a finance-led one (Cafruny and Ryner, 2007a; Wigger and Buch-Hansen, 2012). Against the backdrop of stagflation, the Keynesian interventionist state was

delegitimised and the balance of power between labour and capital shifted towards the latter, which managed to consolidate a different set of policy ideas based on the monetary orthodoxy (Fligstein, 2010; Gamble, 2009; Wigger and Buch-Hansen, 2012). The new market rationality demanded that the macro-economic intervention be minimised and replaced by a micro-management conducive to competitiveness (Fougner, 2006). Public services ceased to be perceived as a common good that needs to be sheltered from commodification and instead became a matter of consumer choice.

The exponential growth of pro-competition legislative acts, which demonstrate the sudden salience of the competitiveness agenda in the late 1980s and 1990s, is itself a product of the neoliberal paradigmatic shift, which castigated state aid as an impediment to economic freedom and prosperity. The rise of the competitiveness discourse in the 1980s expanded the power of the Commission as the ‘legitimate’ authority (Rosamond, 2002). The DG Competition, led by Peter Sunderland from 1985-1989 and Leon Brittan from 1989-1995, grew intolerant to cartels, public monopolies and state intervention to ailing industries (Buch-Hansen, 2010; Cini, 2013; Wigger and Buch-Hansen, 2012; 2014). Over the course of three decades the Commission managed to expand its power over competition policy, which now consists of five domains: antitrust, cartels, mergers, state aid and liberalisation of public monopolies (Akman and Kassim, 2010). The newest reform of competition policy in 2004, which decentralised the enforcement of the cartels and monopoly regulation, can be read as a centralisation in disguise because ‘what the reforms did was to institutionalise across the EU the Commission’s – or rather DG Competition’s – approach to competition regulation’ (Cini, 2013: 5). The delegation of power to the National Competition Authorities, which was prompted by the sheer size of the

workload following the enlargement in 2004, comes with strings attached because the economic analysis that is promoted by DG Competition is predicated on the neoclassical economics' belief in free competition, efficiency and minimal government. The following analysis will attempt to offer a Polanyian (1977) critique of the commodification of the provisioning of public goods grounded in a flawed formal understanding of the economy that bestows the economising principle onto all social domains.

4.1.1. Liberalisation of Public Utilities

In the 1990s the over-riding objectives of competition authorities were to roll back the state and to privatise and liberalise the public services that were previously exempt from competition rules (Buch-Hansen and Wigger, 2010). The EU makes a distinction between services of general economic and social interest, the former being subject to the internal market rules. The way the Commission (COM/2007/0725) interprets the economic nature of a service is as follows:

For a given service to qualify as an economic activity under the internal market rules (free movement of services and freedom of establishment), the essential characteristic of a service is that it must be provided for remuneration. The service does not, however, necessarily have to be paid by those benefiting from it. The economic nature of a service does not depend on the legal status of the service provider (such as a non-profit making body) or on the nature of service, but rather on the way a given activity is actually provided, organised and financed. In practice, apart from activities in relation to the exercise of public authority, to which internal market rules do not apply by virtue of Article 45 of the EC Treaty, it follows that the vast majority of services can be considered as

“economic activities” within the meaning of EC Treaty rules on the internal market (Articles 43 and 49).

The attempts to open the markets in telecommunications, energy, postal services, and transport to competition were legally grounded in Article 106 of TFEU (ex 90) (Frangakis, Hermann, Hufschmid and Lóránt, 2009). The liberalisation of the market for electricity and gas was pursued incrementally. The targeting of the energy market started with the first Directives on electricity (96/92/EC) and gas (98/30/EC) in 1996 and 1998 respectively, which were revised in 2003 (Directive 2003/54/EC; Directive 2003/55/EC). While the initial liberalising efforts in the late 1990s focused on separating the accounts of the transmission network and the generation operation, the liberalisation in 2003 required a full legal separation between the network and the production activities, which implied a loss of management control over the network activities and retention of ownership. In addition, the latest endeavours to foster competitiveness in the energy electricity (Directive 2009/72/EC) and gas markets (Directive 2009/73/EC) under the Third Legislative Package pushed forward the ownership unbundling agenda.

The rationale that the Commission deploys in its efforts to restructure public energy undertakings relies on cost efficiency and consumer choice arguments. Namely, in its Energy Policy for Europe (COM/2007/1), the Commission asserts that ‘a competitive market will cut costs for citizens and companies and stimulate efficiency and investment’. Since 2003 the Commission has proudly reformed the policy-making process, which now starts with an *ex-ante* Impact Assessment (IA) exercise aimed at producing more efficient evidence-based regulatory frameworks (COM/2002/0276). Contrary to expectations, some scholars have argued that often evidence-based

policy-making is substituted with policy-based evidence-making. Torriti (2010: 1069) in his analysis of the EU energy policy found that:

(i) policy options are created merely to support implicitly a predetermined regulatory line; (ii) the ideas put forward by stakeholders during the consultation process are not taken into account; and (iii) useful methods for estimating impacts have not been used, probably due to deficiencies in knowledge and expertise of officials, IAs become merely procedural instruments that do not serve the purpose for which they were instituted.

While the IA policy tool requires the integration of economic, environmental and social concerns, in reality the latter two are ignored and often policies are pursued despite the insufficiency of evidence that support the chosen policy course (Torriti, 2010; Thomas, 2007). The danger of the IA mechanism lies in its instrumental rationality that conflates knowledge with the truth, whereby power is often deployed in the name of the truth (Adler, and Bernstein, 2005). The IA tool serves a legitimating function that stems from the perceived expertise, which supposedly is free of politics and grounded in scientific methodology. However, such conceptions ignore the fact that every knowledge claim is value-laden (Hawkesworth, 2006). The cause for concern with the IA mechanism lies not only in the possibility that knowledge claims that have redistributive consequences can lack veracity, but in the loss of the importance of any political judgements rooted in practical reason, where fairness considerations feature high.

The creation of the internal market for telecommunications followed a similar incremental route that started with the Green Papers in the late 1980s on the development of a Common Market for telecommunications services (COM/87/290;

COM/88/48) and ended in 1998 when the market was fully liberalised. Until 1998 the Commission has successfully policed the Member States practices and made sure they transposed the Directives by initiating 89 infringement proceedings under Article 258 of TFEU (ex 226 TEC) (Pons, 1999). The latest attempt of making the internal market for telecommunications competitive consisted of creating an integrated regulatory framework that reduced the number of Directives from twenty to six: framework Directive (2002/21/EC, amended by 2009/140/EC), authorisation Directive (2002/20/EC), universal service Directive (2002/22/EC) amended by 2009/136/EC), access Directive (2002/19/EC), data protection Directive (2002/58/EC). The aim of the new framework regulatory approach is the reduction of *ex ante* regulation of specific telecommunications sectors as the competition intensifies (Humphreys and Simpson, 2008). The main method of introducing competition is by the unbundling of local loops, whereby incumbent operators are required to give access to new entrants and competitors (Humphreys and Simpson, 2008). The national regulatory authorities, who are empowered to impose fines, are required to carry out analysis of the market power of certain undertakings. There is a legislative requirement that the analysis should be 'carried out using an economic market analysis based on competition law methodology' (2002/21/EC). When there is no possibility of unbundling the local loops, a functional separation of vertically integrated undertakings (between production and network access, i.e. downstream market) is required, i.e. the establishment of separate business entities and accounting separation.

The creation of an internal market for postal services was initiated with a Green Paper in 1992, followed by further legislative efforts in 1997 (Directive 97/67/EC) and 2002 (2002/39/EC). Building on the previous attempts, the new Directive (2008/6/EC) targets one of the last service sectors where the state maintains a

monopoly of public provision in most member states by prohibiting the granting of exclusive rights to a universal provider. Despite the many social concerns regarding the potential redundancy and closure of remote branches, the proposed restructuring of postal services is foreseen to be implemented in all member states by 2013.

The landscape of public utilities in Europe has changed drastically over the course of two decades, from being highly regulated and state controlled in the early 1990s to being a fully privatised market in the 2000s (Bieler, 2011). The economic crisis has given further impetus for deepened privatisation, whereby the revenue from the sale of state owned enterprises has been purported to remedy the ailing public purse. In a letter addressing citizens' concerns about the recent proposal for the privatisation of the water supply in Italy, the DG ECOFIN (2012a) expounded:

As you know, privatisation of public companies contributes to the reduction of public debt, as well as to the reduction of subsidies, other transfers or state guarantees to state-owned enterprises. It also has the potential of increasing the efficiency of companies and, by extension, the competitiveness of the economy as a whole, while attracting foreign direct investment.

The most flagrant way of imposing the privatisation dictum onto states is exemplified by the Greek bailout conditionality, the objective of which was to 'accomplish a fundamental shift of public assets to private sector control' (Memorandum between Greece and EC, 2012). In addition, similar 'fire sale' privatisation plans were introduced in the Economic Adjustment Program for Portugal (DG ECOFIN, 2012b), Ireland (DG ECOFIN, 2011) and all of the countries which applied for bailouts, such as Cyprus, Hungary, Latvia, Romania, and Spain.

The most recent Single Market Acts I and II follow the established objective of complete removal of any institutional barriers that distort competition within the market (COM/2011/0206; COM/2012/573). The SMA I and II have established an even more ambitious program for further liberalisation of those services that are still protected and state owned or operated, such as the domestic rail passenger services. Unlike the international rail passenger services which are already liberalised (Directive 2001/12/EC), some of the domestic railway markets have been closed to competition. In its proposal for a Forth Legislative Package the Commission has expressed its intention to open the domestic services to competition (COM/2010/474).

Nowhere else do we see the operation of the *improvement* principle better than in the public services restructuring in the EU. The Commission has successfully delegitimised the state as the suited provider and relegated it to a mere regulatory role. Moreover, it has further de-politicised the regulatory function by instituting new modes of governance, whereby independent regulatory bodies, which are mainly preoccupied with efficiency considerations, have taken the role of the state in making final decisions. Little room is left for political judgements in the governance structure of the newly created, and often privatised, regulatory bodies, where the interests of powerful corporations often feature high (Buch-Hansen and Wigger, 2010).

4.1.2. Commodification of Provisioning

The success of the liberalisation agenda can be credited to the successful myth-making on the part of the Commission, whereby competition is linked to the essence of the Single Market, the efficient allocation of resources in the integrated European economy and freedom of choice (Akman and Kassim, 2010). The basic assumption behind the vigorous implementation and interpretation of the competition provisions

from the Treaties is the functional superiority of the market. The validity of the above claim can be problematised from a Polanyian (1977) perspective which challenges the moral hollowness of the market pattern. What is often forgotten is that when it comes to services of general interest the profit motive is capable of crowding out solidarity and quality concerns. By contracting-out major utility services the state deprives itself of the very powerful position of being able to distribute resources in meaningful and progressive manner. Private companies do not recognise public utilities as a basic human right of utmost developmental importance, but stay in the business of provision as long as there are significant monetary returns. Privatisation effectively turns services from basic entitlements to commodities to be provided according to the principle of exchange, which unfortunately favours those with bigger monetary means and disadvantages those deprived from any purchasing power.

In the meantime, while private contractors are able to reap off the profit margins, the state is the one that is burdened with the costs in cases where the provision of services is not economically justifiable. For example, the new postal service Directive (2008/6/EC) designates State Aid as the main lifeline to the non-profitable branches in remote areas. However, given the newly constructed problem of public finances, even state subsidies are ruled out, which in turn, results in asymmetric delivery of the commodity. This predicament serves much better the interest of capital than the general public interest. Zacune (2013) argues that privatisation has not ended the taxpayer's burden, but on the contrary the state is subsidising private companies that profit from the provision of services.

Competitiveness has been the main argument used by the Commission for the liberalisation of the public service sector.³⁷ However, Hay (2012) has made a pertinent observation about the unwarranted assumption made by the Commission that considers the services market, which is labour intensive, to be price sensitive. Hay (2012: 477) continues to show how the introduction of competitiveness to the services market comes at a great price:

service sector liberalisation does indeed intensify price competition, leading to a reduction in effective prices; since labour costs represent such a high proportion of the price of a service, price reductions squeeze earnings; since such a high proportion of EU employment is in the service sector, a sectoral fall in earnings is likely to translate into a significant aggregate drop in consumer demand.

The commodification of public services can be resisted on normative grounds by acknowledging that services are political goods that should not be instrumentalised (Friedrichs, 2010). Polanyi's argument against the market society was based on its inability to recognise any needs and wants other than the profit motive (Dale, 2010). The economising rationality inscribed into the principle of exchange precludes the substantive rationality concerned with people's livelihoods (Polanyi, 1977). Services of general interest are governed by a different logic compared to the private enterprises, which can never recognise the rights and entitlements of the community beyond the private profit concerns. The provision of public services is not merely a technical issue that can be outsourced to private companies, but a political and cultural one (Spearin, 2007; Hopgood, 2008). Even if the introduction of the market mechanism proves to work, we should always consider the consequences of such an

³⁷ 'Competitiveness, insofar as we are safe to use the term, is an index of the degree to which a business (or economy more broadly) can bring a given good (or service) to market for less' (Hay, 2012: 473).

on our sense of commonality (Sandel, 2012). An undertaking controlled by the state is accountable to the general public, while a private enterprise is solely accountable to its shareholders. Although the apologists of privatisation have argued that there are legislative obligations in place, the legal requirement imposed on the private providers represents a mere performance target for the corporation, but the final goal continues to be profit, which is always repatriated from the community of users.

When state ownership comprised an important fraction of the economy, approximately 10% of the GDP, the state could use its position to pursue its socio-developmental objectives (Frangakis, Hermann, Huffs Schmid and Lóránt, 2009). It could easily shelter society in times of economic slowdown or recession by expanding public employment, as did Sweden in the 1970s by expanding the public sector employment (Bonoli and Emmenegger, 2010). Regrettably, the extension of the neoliberal creed has demonised the state and introduced a culture where market orientation and the value of cutting costs prevail. However, just because the private providers are more efficient does not make them more suitable for a job where the quality of the services should be trumping considerations for public wellbeing. Invariably, efficiency gains are achieved through redundancies, given that the service sector is labour intensive, which, in turn, diminishes the quality of the service provided (Hay, 2012). The normative argument against privatisation is supported with the empirical evidence. By studying the privatisation of the British electricity market, Newbery and Pollitt (1997) have observed that the decrease in the costs of electricity and the increased efficiency of production did not translate into falling prices, but bigger profit margins. Zacune (2013) reached a similar conclusion while studying the privatisation of the railways in the UK which resulted in public funds loss of €12.6 billion due to the subsidising activities of privately owned companies. Thus,

privatisation, instead of being a panacea, is benefiting private capital, while incurring unnecessary costs for consumers and taxpayers. In the years to follow the privatisation experiment will have to stand the test of history as more empirical investigations critically appraise the actual costs of it.

Privatisation of public utilities opens the space for capital to commodify previously communal goods, whose production, maintenance and administration is suddenly entrusted to private actors solely accountable to their financial investors. Just like in feudal England, the free market for services of general interest 'was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism' (Polanyi, 1944: 146). The act of commodification pushed by the neoliberal apologists within DG Competition is reminiscent of the act of enclosure of land during Tudor and Stuart England which Polanyi (1944: 37) described to be 'a revolution of the rich against the poor' done in the name of economic progress. In the same way as the enclosure of the land acted as a catalyst for the creation of the market for land directly and labour indirectly (constituted by dwellers on the previously common land whose means of subsistence was taken away and they were turned into wage labourers) (Polanyi, 1944: 71-79), the current enclosure of public utilities creates a market for electricity, natural gas, rail, aviation, telecommunication and postal services. Production within the newly formed markets is no longer governed by the use imperative, but by the buying and selling and the gain motive. A Polanyian (1977) criticism can be unleashed on such commercialising practice because it extends the market society into previously protected domains. From a Polanyian (1977) perspective the commodification of basic services, such as water, electricity and post that maintain people's livelihoods is indefensible and raises serious questions about the habitat of humanity. The appropriational movement that sets a competitive

price-making market predicated on the exchange principle crowds out the redistributive principle and results in asymmetric access to goods of general interest. The transfer of assets from the state to the private proprietors has tremendous redistributive repercussions for society, which is collectively dispossessed from its entitlements to equal and solidaristic provision of basic life ingredients. The privatisation surge transforms the substantive role of the economy from that of provisioning of basic needs, to that of profit maximisation and economising of scarce means (Polanyi, 1977).

4.1.3. The Deregulation Myth

Competition policy perfectly demonstrates how neoliberalism does not imply deregulation, but re-regulation and active pursuit of pro-competition rules (Brenner, Peck and Theodore 2010; Cerny, 2008; Konings, 2009; Panitch and Konings, 2009; and MacKenzie, 2005). The new competition state is no less interventionist than the welfare state; however its role shifts from direct provider to regulator at bay which is mainly concerned with the construction of competitiveness (Humphreys and Simpson, 2008). However, both types of state have actively pursued the creation of a certain type of market. Polanyi (1944) skilfully deconstructed the neutral aura around the *laissez-faire* market in the nineteenth century by highlighting the state intervention involved in its implementation, which created the necessary precondition for capitalism: the market for land, labour and money. Similarly, in the neoliberal age competition is not a given state of nature towards which things would evolve if left to their own devices. Instead, the creation of a competitive environment requires an orchestrated action on the part of public authorities (Polanyi, 1944). Foucault (1978:120) grasped this problem when explaining the different state-economy nexus between traditional liberalism, which was concerned with free exchange, guaranteed

by state-authorised private property, and neoliberalism, which is concerned with competition as a principle of governmentality. Like Polanyi (1944), Foucault (1978:121) concluded that:

There will be no market game, which must be left free, and then the domain in which the state begins to intervene, since the market, or rather pure competition, which is the essence of the market, can only appear if it is produced, and it is produced by an active governmentality.³⁸

It is useful to dwell for a moment on one important paradox in the implementation of competition policy that touches the core of the state-market nexus. Namely, on the one hand the Commission has been targeting the existing state monopolies because of their supposedly negative influence on the competitiveness of the economy, all the while allowing the concentration of capital via the mergers regulation, particularly financial capital. By studying the new Takeover Directive (2004/25/EC), which regulates shareholders' rights during takeovers, Höpner and Schäfer (2010b) found that the neutrality principle is promoted, which curtails management ability to act defensively against hostile takeovers. The most controversial aspect of the Directive is the protection offered to minority shareholders through the Mandatory Bid Rule, which decreases the power of the blockholders (Cernat, 2004). The Takeover Directive is a typical example of how through Europeanisation, the corporate governance models are being increasingly Anglo-Saxonised, even though a full convergence is not foreseeable in the near future given the national diversities (Cernat, 2004). Despite the Commission's liberalising efforts aimed at securing 'level playing field', Clift (2009a: 56) argues, the varieties of takeover markets remain entrenched in their national socio-legal frameworks. By studying the transposition of

³⁸ However for Polanyi the active governmentality was also a feature of classical liberalism.

the Takeover Directive into French regulation, Clift (2009a) manages to show the existing obstacles to the Commission's liberal agenda modelled on the liberal market economy regulation.

Notwithstanding the lack of uniformity across Europe, the new regulation, by facilitating the cross-border acquisition of companies, turns companies into commodities (Trevor Evans, 2009). Polanyi (1944) would have had a lot to say about the fictitious aspect of such commodification. Companies, which are predicated on long-term social relations between employees and proprietors, secure the livelihood of many workers. Therefore, treating companies as easily tradable commodities which can be downsized if the financial market deems it necessary can have tremendous ramifications for the laid-off labour force.

Despite the increasing opposition from member states, the Commission has been pushing for the modernisation of company law. Following the advice of the High Level Group of Company Law Experts, commissioned by Bolkestein in September 2001, the Commission drafted its first company communication in 2003 (COM/2003/284) that was crystallised into a Directive (2007/36/EC) which strengthened shareholder rights. The recognition of the shareholders as the most effective way of ensuring effective governance is maintained in the new Company Action Plan promoted by the Commission, which is yet another blow to the trade unions' request for strengthening workers' involvement in the management of the company (ETUC, 2013). The new Action Plan (COM/2012/0740) maintains what Horn (2012) has christened a structural separation of the workers' rights and company regulation.

The neoliberal corporate governance legislative framework has facilitated the cross-border restructuring of European companies. Buch-Hansen and Wigger (2010: 37) found that the Commission has approved all but two mergers from a total of 1466 notified mergers from 2004 to 2008. The rate of corporate concentration of power has been growing since the burst of the financial crisis as testified by the fact that only 20 out of 4376 notified mergers were prohibited by the Commission during the period of 1990-2010, despite them being a huge undertaking of more than one billion euros (Wigger and Buch-Hansen, 2012). The latest statistics on mergers is yet another sign of growing corporate control, where from a total of 5403 notified mergers, 4718 are approved and only 24 were prohibited from the period of September 1990 until November 2013 (DG Competition, 2013a). Moreover, the recent crisis has prompted consolidation in the financial sector, where the value of cross-border mergers and acquisitions deals of banks in the Eurozone increased from €10 billion in 2006 to €53 billion in 2008 (ECB, 2011a).

The EU political economy is marked by a shift ‘from public monopolies to private oligopolies’, which shows the hollowness of the neoliberal argument against state monopolies (Hermann, 2007). On the one hand the fabricated imperative of a level-playing field has led to the dismantling of the state controlled enterprises, while on the other hand private ownership concentration has been increasing at an accelerated rate. The same neoliberal mantra has been using double standards when evaluating the economic efficiency of the market concentration of private capital *vis-à-vis* the public ones. The new European Parliament Resolution (P7_TA(2013)0026) on state aid modernisation continues to encourage less state-aid, while the Commission competition authorities have been condoning the private concentration of power. Although the data on market power and ownership concentration is fragmented and

nation-bound, the ownership matrix has become interconnected and transnational. Vitali, Glattfelder and Battiston (2011: n.a.) found ‘that transnational corporations form a giant bow-tie structure and that a large portion of control flows to a small tightly-knit core of financial institutions’. The Directive (2005/56/EC) on cross-border mergers clearly aims to facilitate such transnational restructuring by establishing a simplified framework. The European Central Bank (ECB) notes an increase in market concentration in the financial markets, which has been likewise subject to privatisation and liberalisation pressure from the EU, measured by the share of total assets held by the five largest credit institutions (ECB, 2013a).

A notable disparity emerges between the rhetoric of neoliberal apologists, who are focused on competitiveness and advocate a market free from state intervention, and the economic landscape populated by gigantic corporate entities, which are too big to fail and are increasingly wielding significant political power. Crouch (2011) has nicely elaborated how the Chicago School of economics in the US and the ordoliberals in Europe have supported the creation of large firms based on the promise of efficiency gains secured via concentration, which stands in contrast to the previous liberal preference for a competitive market populated by numerous small players. The growing power of the corporations has disturbed the previous state-market nexus in that the state is divested from business activity, while the corporation is implicated in political matters (Crouch, 2011).

Well examined in the studies of corporate governance literature, this augmentation of market power against the backdrop of diminishing state assets is happening just at the time when the corporate control market is converging towards a neoliberal corporate governance model biased towards shareholders (Horn, 2012; van Apeldoorn and

Horn, 2007).³⁹ The marketisation of corporate control serves as a second disempowerment of the people, the first being the privatisation of the public utilities. They are not only dispossessed of the previously common goods, such as water, electricity, post, but are also deprived of influence within the corporate decision-making structure, which is increasingly subordinated to financial capital (van Apeldoorn and Horn, 2007). The community simultaneously lost ownership and control thanks to the promotion of a shareholder value model by the EU (Horn, 2012; Cernat, 2004). Despite the continued divergence between the varieties of capitalism (VoC) models (Clift, 2009a), the coordinated-market economies are increasingly acquiring neoliberal features (Bieler, 2008). Even Germany, the prototype of the coordinated capitalism model, has banned the unequal voting rights that worked in the interest of stakeholder at the expense of shareholders (Höpner and Schäfer, 2010b). Unlike the stakeholder model which guaranteed that production would not be guided solely by financial capital interests by relying on the co-determination system of voting rights, the shareholder model introduces a shares-mediated marketised control (Horn, 2012). The rise of a shareholder democracy with the 'one share one vote' paradigm comes at the expense of the social democracy (van Apeldoorn and Horn, 2007). While the stakeholders lose their voice, the shareholders' power of exits enables the capital market to 're-orient managers to short-term financial performance' (Apeldoorn and Horn, 2007: 219). If privatisation transferred the assets from public to private hands, the neoliberal corporate control model further insulated the decision-making process from democratic control creating a double blow to people's livelihoods (Polanyi, 1944). The shareholder model, which is skewed towards the

³⁹ Corporate governance is understood as a social relation and it 'refers to *those practices that define and reflect the power relations within the corporation and the way, and to which purpose, it is run*' (Horn, 2012: 51).

maximisation of the immediate profit returns to the owners, can have negative influence on the long-term sustainability of the business strategy; which is particularly detrimental when it comes to the provision of public goods. This model is a contemporary example of what Polanyi (1944: 233) christened new-constitutionalism, which stands for the practice of erecting legal safeguards against interference not from the Crown as it used to be in the seventeenth century, but against intrusions from the demos.

The final paradox that shows the entrenchment of the neoliberal creed rests in the selective application of state aid regulation during the financial crisis. Derogations from state aid rules were allowed because of ‘serious disturbances’ as envisaged by Article 107(3b) of the TFEU. Wigger and Buch-Hansen (2014) emphasise the contrast between the €4.5 trillion of authorised state aid to the financial industry from 2008-2010, which represents 37% of EU GDP, and the mere €82.5 billion granted to the real economy. While state support to the productive industries and the major infrastructural projects is denied behind the pretence of fiscal constraints, the financial industry gets preferential treatment. Thus, Žižek (2009) invites us to look at the bailout as a socialist measure, but one that benefits the rich rather than the poor.

Parallel to the efforts of creating a competitive home market, the EU is actively promoting the diffusion of competition rules abroad. Opening every possible market for competition has been taken to the extreme in that the Commission actively endeavours to open even the public procurement markets abroad as seen in the new proposal for regulation on the access to the international public procurement markets (COM/2012/124). To that end, the EU has deployed various instruments, both bilateral and multilateral. Namely, it has attempted to construct a shared

understanding of competition with the ultimate aim of inducing a convergence around a common framework of rules. It remains to be seen if the final documents of the Comprehensive Economic and Trade Agreement between Canada and the EU and the Transatlantic Trade and Investment Partnership between USA and the EU would contain procurement chapters aimed at opening the public procurement markets at all administrative levels that will ensure equal and fair treatment of foreign companies equally favourable to those given to local providers. To this day the EU has incorporated competition provisions in various agreements involving other jurisdictions, such as the Stabilisation and Association Agreements with Albania, Macedonia, Croatia, Montenegro, and Turkey and the Partnership and Cooperation Agreements with Russia, Ukraine, Moldova, Georgia, Azerbaijan, and Armenia (DG Competition, 2008). The former types of agreements, whose objective is the approximation of the *acquis communautaire* with the national legislation of the candidate member states, have included provisions that target the public monopolies. On top of those, it has signed agreements solely dedicated to competition with the USA, Canada, Japan and South Korea and various Memoranda of Understandings and annexes to many bilateral agreements (DG Competition, 2013b; Lagares, 2010).

Concomitantly to the bilateral venue, the EU has used a few multilateral platforms in the effort of establishing a global competition regime, such as the WTO Agreement on Government Procurement revised in 2014 that is in effect a plurilateral agreement in which the EU opens up its procurement market on a reciprocal basis. In addition, it actively participates in the informal efforts of the International Competition Network (ICN), whose main function is epistemic in that it engages in both ontological persuasion, i.e. construction of a problem (for example what constitutes an antitrust issue), and rule persuasion, i.e. which solutions are appropriate (Hülsse, 2007). By

framing competition as the natural, neutral and efficient ordering of reality, the Commission validates a common set of beliefs about what constitutes a violation of competition, what is a justifiable sanction and what are the global solutions (ICN, 2013; Speech/10/183; Speech/13/958; Speech/12/653; Speech/09/534). The authority of the international forums stems from their perceived expertise that empowers them to produce knowledge claims which have material effects (Miller, 2007).

The above trend takes the disembedding tendency to the international level. Namely, not only is the EU opening up internally its procurement market to market competition, but it is striving to open up its own markets to international competition and secure unrestrained access to foreign procurement markets. We are witnessing an internal intensification and external extension of the disembedding tendency. Instead of allowing local municipalities to use their money locally and stimulate their economy, they are required to treat international companies no less discriminatory than local ones. From a Polanyian standpoint the extension of competition to procurement markets can be considered as an abomination because it ruins the essence of the economy, which according to Polanyi (1977) is about provisioning rather than economising and competition. Polanyi (1977) argued that there are more important things than the efficiency gains associated with competitive liberalisation of markets, such as satisfaction of needs of humans and their livelihood.

4.2. Financial Policy

As of December 2013 the EUR-LEX database features a total of 79 secondary legislative acts within the policy field of free movement of capital, many of which have been analysed for the purpose of this thesis. One of the core pillars of the Single Market project was the integration of financial markets that was supposed to allocate

resources more effectively across the Union. The landscape of the financial market has undergone tremendous changes from the post-war period when the Bretton Woods system, predicated on capital controls and a semi-flexible exchange rate system, was making finance a servant to production (Helleiner, 1994; Ruggie, 1982), to the time of the establishment of a banking union in the aftermath of the Great Recession (COM/2013/0520; European Parliament and Council Regulation 1022/2013/EU).

Although Article 67 of the Treaty of Rome envisaged a progressive removal of capital flow restrictions, capital controls were prevalent in the 1960s and 1970s. It was not until the jumpstart of the Single Market Project in the 1980s when financial liberalisation gained impetus. The first legislative efforts of tearing down the barriers to the free movement of capital were made in the late 1980s with the adoption of the liberalisation Directive (88/361/EEC) and the banking coordination Directive (89/646/EEC), which were based on the mutual recognition principle (Mügge, 2006). The Maastricht Treaty and the foreseen Economic and Monetary Union, which was supposed to eliminate the exchange-rate transaction costs, provided additional incentives for the full integration of the financial services market (Bieling, 2011). The Financial Services Action Plan (FSAP), launched in 1999 following the Cardiff European Council's Conclusions (1998), targeted the institutional obstacles that prevented cross-border integration by foreseeing greater coordination and harmonisation of EU-wide regulation, whose substance is marked by a 'pro-competitive' direction' (Mügge, 2006: 992; Frangakis: 2009). The FSAP was an ambitious project which introduced 42 measures, 39 of which were implemented by the predicted deadline in 2004 (DG Internal Market, 2007). In order to facilitate the process of fast and smooth adoption of legislative measures, the Lamfalussy process

was launched in 2001, which envisaged the adoption of framework legislation by the Council of the European Union (known as the Council of Ministers) and delegated the technical legislation to the Commission and the respective committees: the European Securities Committee, the Committee of European Banking Supervisors, the Committee of European Securities Regulators, and the Committee of European Insurance and Occupational Pensions Supervision, which have been replaced with three new authorities under the European System of Financial Supervision (Grossman and Leblond, 2011; Mügge, 2013; McKeen-Edwards, Porter and Roberge, 2004).

The FSAP and the Lamfalussy process have undeniably succeeded in securing a *de jure* liberalisation of the financial services market given that by the end of 2008 all of the 27 Member States had transposed the 26 Directives (DG Single Market, 2010). However, the *de facto* liberalisation still remains to be completed, although the volume of cross-border interbank transactions and the share of investment in mutual funds in other member states have been increasing (Grossman and Leblond, 2011; McKeen-Edwards, Porter and Roberge, 2004). While the wholesale banking and the equity market have been integrated, retail banking continues to be fragmented, as measured by the share of assets held by subsidiaries from different member states, despite the notable progress (Mügge, 2013). By looking at the investors' portfolios, the ECB (2011a) reports an ownership diversification in that 40% of the equity assets held by Eurozone residents were from other member states. The consolidation of the stock exchanges across Europe, such as the creation of the Euronext, might have helped the integration of equity markets.

4.2.1. Depoliticisation

The financial market liberalisation has been secured through the extension of new-constitutionalism measures as understood by Polanyi (1944). The integration of

finance across European borders came at a price for democracy because it was secured by an act of delegation of regulation to independent, non-majoritarian bodies. The delegation of power represents a typical neoliberal depoliticisation, whereby decision-making is successfully insulated from democratic control. Depoliticisation, be it institutional or rule-based, has become the new mode of neoliberal governing (Burnham, 2011; Gamble, 2009). The most recent attempt at creating a banking union confers immense supervisory powers over the Eurozone banks to the ECB, on top of its competence in monetary policy, making it one of the most powerful supranational technocratic bodies in Europe (Council Regulation 1024/2013/EU). Financial services regulation has been disembedded from European varieties of capitalism thanks to the influence of the large financial service providers (Mügge, 2006: 1009). The scaling-up of such market-enabling measures at the EU level has disciplined states by creating federalism with an exit option for capital (Harmes, 2006; and Gill, 2001). So, not only does capital get a protection from democratic pressure via property rights, whose holy status has been constitutionalised, but it manages to create a seemingly apolitical economic space devoid of democratic accountability (Rupert, 2005). If the construction of the market society in the nineteenth century was made easier thanks to the inexistence of democracy, as explained by Polanyi (1944), in the age of universal suffrage the same is enabled through the devaluation of citizenship ‘both in terms of tangible (social) benefits of citizenships and the capacity to affect policy through the polls with franchise (political benefit) of citizenship’ (Hall, 2007: 320). People might have gained voting rights, but they have lost their hard-earned policy-making autonomy. Akin to the *laissez-faire* era, consumption power and capital are the new criteria for full franchise in the neoliberal regime.

Contrary to expectations that the recent economic crisis would change the course of the neoliberal delegation of power and lead to a democratic political control (Peter Evans, 2008), we are witnessing the creation of even more powerful technocratic bodies that participate in the creation of EU-wide rules, such as the newly created European Banking Authority (European Parliament and Council Regulation 1022/2013/EU) and the European Securities and Markets Authority (European Parliament and Council Regulation 1095/2010/EU). The legitimacy of those bodies, which derives from their perceived technical expertise, provides stability to the neoliberal order. And Hall (2007) is right when he claims that the source of their stability is always cognitive, i.e. maintained through a successful manipulation of the intersubjective system of beliefs that legitimise the order.

In the effort to curb the systemic risk in the financial system, European countries have scaled up the macro-prudential policy framework at the EU level, mainly by creating a European System of Financial Supervision consisting of (Baker and Widmaier, 2014):

- a) the three European Supervisory Authorities: the European Banking Authority, the European Securities and Markets Authority, and the European Insurance and Occupational Pensions Authority,
- b) the European Systemic Risk Board (ESRB), which was established following the suggestion of the de Larosière group (Regulation EU/1092/2010).

The key objective of the ESRB (ESRB/2013/1) is to keep an eye on excessive leverage, exposure to various bubbles and maturity mismatches in the financial industry, which entails the monitoring of the financial cycle by focusing on various indicators of potential vulnerabilities such as credit and property price fluctuations.

The new macro-prudential rules that are in line with the Basel III guidelines provide national authorities with various instruments, such as counter-cyclical capital buffers (up to 2.5% of risk-weighted assets), global systemically important institutions (G-SII) buffer (between 1% and 3.5% of risk-weighted assets), other systemically important institutions (O-SII) buffer (up to 2% of risk-weighted assets) and limits on loans-to-value caps. The ECB is empowered to establish higher capital buffers than those required by the national authorities within the new Single Supervisory Mechanism within the Eurozone (Council Regulation 1024/2013/EU).

The new regulation and supervisory measures are not without their critiques. Jablecki (2012: 13) argues that they both acted ‘pro-cyclically by, on the one hand, encouraging banks to acquire sovereign exposures and, on the other, punishing banks for these exposures after they had been acquired’. The new Capital Requirement Directive (2013/36/EU), following Basel III, which maintains the Basel II Liquidity Coverage Ratio that requires banks to hold high-quality assets to cover their net outflows over 30 days, has been blamed for the exacerbation of banks’ vulnerability. More specifically, the requirement to hold highly liquid assets, which consist of cash, central bank reserves and government bonds, have been credited for the excessive exposure of banks’ balance-sheets to the Eurozone governments’ sovereign debt (Jablecki, 2012). In addition, the supervisory policy of the European Banking Authority (EBA) by applying the same capital adequacy rules to sovereign bonds irrespective of whether they are kept on the trading or the banking book has created problems for banks in terms of the need for additional capital requirements because the increase of sovereign debt risk was suddenly badly reflected on the banks’ balance-sheets (Jablecki, 2012).

But the chief problem with the ESFS is that it inaugurates four highly powerful technocratic bodies that are insulating key political decisions from democratic control. In their analysis of the genealogy of the macro-prudential debates, which can be traced back to institutionalist economics of Veblen and Galbraith, Baker and Widmaier (2014) underscore the legitimacy deficit embodied in the macro-prudential policy solutions that require regulatory autonomy. The current macro-prudential regime is ‘a technocratic project designed by technocrats for technocrats’ (Baker and Widmaier, 2014: 490). ESFS’ technocratic nature is a perfect example of the new-constitutionalism, discussed by Polanyi (1944: 234) and directed at protecting the market not from an arbitrary interference from the Crown, but from the people. But the chief problem with the ESFS is that it inaugurates four highly powerful technocratic bodies that are insulating key political decisions from democratic control. Their technocratic nature is a perfect example of the new-constitutionalism, discussed by Polanyi (1944: 234) directed at protecting the market not from arbitrary interference from above, but from the people.

From a Polanyian (1944) point of view the problem is not the creation of a closer fiscal and banking union, but the constitutive neoliberal features of the same. The supranationalisation of a policy area does not invariably lead to disembeddedness. The asymmetry in the competences between the EU and member states does not disembed the economy as argued by Harmes (2006). Hypothetically we can have asymmetric governance that is underpinned with social democratic norms instead of neoliberal ones. From a Polanyian (1944) perspective it is the quality of the policies and not the level of their enactment that result in disembedded system.

In addition to the flow of authority to independent regulatory bodies, we are witnessing the spread of self-monitoring norms. The sheer size and technicality of the financial operations are used as an excuse to endow banks with the power to self-comply with loosely defined regulatory framework. And unfortunately the new Basel Accord changes do little to alter the practice of entrusting banks with their own internal risk assessments (established by Basel II as a way to prevent banks from cherry-picking, i.e. lending to higher risk activities that fall within the same risk bucket), which is to be monitored by yet more private entities, rating agencies. The Basel III reforms are unlikely to stop the increased trend of asset-securitisation as a type of a balance sheet manoeuvre that minimises the capital requirements costs (Major, 2012). Even the recent ECB (2013b: 27) report acknowledges that the variation in risk-weighted-assets (RWA) exposure across the EU was due to the 'use of the internal ratings-based (IRB) approach by some banks, which partly reduced their RWAs through, for instance, internal model modifications'.

Both the increased reliance on independent agencies that have huge distributive impacts on the lives of many and the proliferation of the self-monitoring norms are representatives of the new-constitutionalism discussed by Polanyi (1944), who criticised the discourse of economic liberalism for its repercussions for democracy. Namely, Polanyi (1944: 234) successfully deconstructed the hidden agenda of the liberal obsession with the separation of powers, which was no longer confined to providing protection against the Crown, but was directed at preventing the demos from having effective control over their decision about the economic system.

4.2.2. Exogenous View of Finance

Unfortunately, the trend of distancing the electorate from direct control over major decisions that regulate sophisticated finance vehicles, whose trading indirectly affects people's livelihoods, is not the only worrying development in the financial markets. Equally detrimental is the undisturbed survival of the mainstream orthodox economic thinking that constitutes the worldviews and informs the decisions of both the regulators and the regulated (Watson, 2014b). The exogenous non-social view of finance that deduces conclusions from rationalistic assumption, rather than from evidence, has been left intact in the aftermath of the crisis (Sinclair, 2010; Soros, 2013). Scholars have found numerous problems with the existing understanding of finance based on a theory of abstract mathematical modelling of extrapolated behavioural features, ignoring the fact that financial practices are social in nature (Watson, 2014b). Financial markets are embedded in specific socio-temporal contexts and are subject to bubbles rather than the bell curve characteristics (Watson, 2014b, Sinclair, 2010; Major, 2012). The first problem with the orthodox understanding of finance is its uneconomic nature, whereby practices are assumed rather than understood in their historic context (Soros, 2013). Krippner (2004: 112) has underscored the importance of understanding that:

every transaction, no matter how instantaneous, is social in the broader sense of the term: congealed into every market exchange is a history of struggle and contestation that has produced actors with certain understandings of themselves and the world which predispose them to exchange under a certain set of social rules and not another. In this sense, the state, culture and politics are contained in every market act; they do not variably exert their influence on some kinds of markets more than others.

One of Polanyi's (1977) main achievements was his critique of neoclassical economic thought and the economic fallacy it committed. Polanyi (1977: 13) understood the danger of substituting the substantial view with a formal understanding of the economy, based on rationalism that:

appears to achieve both the systemic limitation of reason to scarcity situations and its systematic extension to all human ends and means, thus validating an economistic culture with all the appearances of irresistible logic.

Such economic solipsism legitimises a concept of formal justice, which will be preserved only if the price-making market, that is purported to be always tending towards equilibrium, was left undisturbed (Polanyi, 1977). By turning the problem of the economy into one of allocation of insufficient means, we risk the atomisation of society and the crowding out of moral concerns from the decisions that secure the livelihood of many (Polanyi: 1977: 25). Within orthodox economic thinking economising rationality has substituted substantive rationality which is based on practical reason within a given situation (Cangiani, 2003). Thus, Polanyi (1977) advocated a return to a substantive understanding of the economy, which derives from people's satisfaction of material needs by interacting with their surroundings.

The second problem with the exogenous view of finance is that it gives rise to modelling that has performative effects, i.e. it materialises what it supposedly describes (Watson, 2014b). When we understand the economy as a formal mechanism with an internal logic whose effects will be produced only if certain conditions are met, we underscore the performative aspect of such thinking (Foucault, 1978). It is such thinking that contributed to the most recent financial crisis, by giving rise to trading practices that the model can supposedly predict and explain with great

accuracy. Sinclair (2010: 100) reminds us that it was the exogenous view of finance which allowed the expansion of the trading of market assets created out of illiquid consumer debt. Such a view of finance could never account for the ‘irrational exuberances’ that gave rise to panic in the financial market, following the discovery of toxic assets in the subprime mortgage market, which objectively were not big enough to bankrupt the whole system as they represented a mere 1% of the total capital market or precisely \$0.7 trillion out of \$175 trillion assets (Sinclair, 2010; Watson, 2014b). It is in the relatively modest significance, yet hugely consequential crisis of the mortgage-based security market, where we see the ‘valuation crisis’, which shattered the confidence in the whole system and questioned the certainty in financial innovation.

Despite the evidence to the contrary, the credibility of modelling derived from orthodox economics was not questioned. Instead, the only proposed solution was the adjustment of risk modelling that nonetheless continues to rely on the exogenous view of finance (Major, 2012). The market-shaping coalition led by France has managed to regulate previously unregulated activities, such as over-the-counter derivatives (Regulation 648/2012/EU) and credit rating agencies (Quaglia, 2012). Nonetheless, the new regulatory efforts directed at credit rating agencies (European Parliament and Council Regulation 462/2013/EU) represent a futile attempt because they alter neither the analytical modelling of the agencies nor their issuer-pays practice, but merely increases the transparency of the agencies (Sinclair, 2010: 104).

Although liberal assumptions that markets are always efficient and prices reflect underlying fundamentals have been discredited, the exogenous understanding of finance is still the predominant view. In an attempt to challenge the market efficiency

hypothesis, Soros (2013) has emphasised two important principles that constitute the financial markets: a) the principle of fallibility which shows how market prices reflect market participants' expectations, which are prone to error judgements, rather than the underlying economic fundamentals, and b) the principle of reflexivity which underscores the role played by the imperfect and partial knowledge of market participants whose subsequent mispricing results in change of the underlying fundamentals. With the two principles in mind, Soros (2013) attacks the very deductive logic inscribed into the orthodoxy that assumes equilibrium to be the universally valid condition and instead he understands periods of stability to be exceptional states infused with positive and negative reflexive loops.

By looking at a few contemporary currency crises, Harmes (2001) has demonstrated how the herd behaviour of institutional investors leads to 'reflexive speculative bubbles' and panics. Although the bursting of speculative bubbles does not result from a problem with the underlying fundamentals, it has disruptive potential to halt the real economy. If investment in the coordinated varieties of capitalism was secured via long-term relationship between the intermediaries (banks) and the stakeholders who paid attention to a wider array of factors rather than the immediate returns to the indifferent shareholders, today investment decisions are centralised among a few institutional investors and based solely on price-signals via the stock market (Harmes, 2001; Horn, 2012; Rhodes and van Apeldoorn, 1998). Institutional investors are guided by short-term financial performance and quarterly indicators rather than long-term value creation. The data about market developments in Europe shows evidence of the increasing dominance of the institutional investors in the capital markets (Bank for International Settlements, 2007; Bieling, 2003). The European Fund and Asset

Management Association (EFAMA) (2012) reported that in 2010 institutional investors controlled 69% of the €14 trillion assets under management in Europe.

Long before the emergence of the finance-led accumulation regime, Polanyi (1944: 238) was aware that the ‘financial markets are governed by panics’. He observed that they are marked by trends of overconfidence, panic and uncertainty that have destabilising effects on the economy. At no place do we see the volatility and irrational traits of those markets better than in the case of the ‘systematic mispricing of sovereign risk’ in the Eurozone that caused macroeconomic problems (De Grauwe and Yuemei, 2012). De Grauwe and Yuemei (2012) assert that the huge bond spreads⁴⁰ between the bond rates of Germany and the so-called PIIGS club (Portugal, Ireland, Italy, Greece and Spain) were not due to changes in the economic fundamentals (increase of debt to GDP ratio), but because of market sentiments. The bond spreads are themselves prone to speculative bubbles that have a self-fulfilling dynamic as seen in the fact that the high debt-to-GDP ratios were reason for worry only in the PIIGS countries, as opposed to the stand-alone countries with equally high public debt such as Japan and the US (De Grauwe and Yuemei, 2012: 877).

The very act of putting the blame for the sovereign-debt crisis on fiscal profligacy shows the entrenchment of the monetary orthodoxy. When examining the politics around the return to the Gold standard in the inter-war period, Polanyi (1944) observed that thanks to the misrepresentation of facts, inflated wages and budget deficits were the first line of attack of economic liberals. Does not the same hold true for today’s crisis narrative presented by key political figures? It takes no more than a quick glance at the public debt data for any laic to realise the unwarranted accusation

⁴⁰ Bond spreads is the difference between bond rates of a given country with respect to Germany.

levied against the peripheral states in Europe, the so-called PIIGS club consisting of Portugal, Ireland, Italy, Greece and Spain, by the austerity hawks. With the exception of Greek public debt and its persistent government deficit, which was masked with the help of creative accounting and dubious derivative arrangements (cross-currency swaps using fictitious exchange rates) administered by Goldman Sachs, the EU countries with public debt averaging around 85% of GDP did not have a less sustainable fiscal position compared to the US or Japan with their respective debts of 100% and 200% of GDP (Lapavitsas *et al.*, 2012). On the contrary, Ireland and Spain were upholding the Maastricht convergence criteria and had their public finances in a very neat order prior to the financial crisis (Palley, 2013; Pivetti, 2013). The upward trend of sovereign debt started only with the gigantic bail-outs for the over-leveraged European banks, which were over-sized compared to their American counterparts (Blyth, 2013). Blyth (2013) argues that if in the US, where the combined assets of the six largest banks did not exceed 60% of the US GDP, the banks were 'too big to fail', in Europe banks were 'too big to bail' because their assets were exceeding their country respective GDP by far more than in the US. Namely, in the UK the assets of the biggest four banks were 394% of its GDP, in Germany the assets of the Deutsche Bank were worth 80% of its GDP, in France the top three banks had assets of 316% of its GDP, and in Ireland the top three banks had assets worth 400% of its GDP (Blyth, 2013: 82-83).

It is difficult to argue with the critical political economy assessment of the financial integration project as being distinctly neoliberal. Nowhere have we seen the materialisation of the idea of the self-regulating market better than in the creation of a frictionless flow of capital across European borders. Irrespective of who and what the actual actors and processes were that pushed for liberalisation - be it globalisation,

changes in state preference (Moravcsik, 1991), neoliberal discourse, supranational actors (Sweet and Sandholtz, 1998), the advocacy coalition led by the UK, Nordic countries and Ireland (Quaglia, 2012), financial capital (van Apeldoorn et al. 2007) or some structural changes in the mode of capital reproduction (Bieling, 2003; Macartney, 2011) - the existing structural features of the market are biased towards and benefit financial capital. Polanyi (1944: 15), who believed in the supremacy of politics, recognised *haute finance* as the most powerful moderator thanks to its 'amphibious capacity' of penetrating politics. Setting aside the debate of whether there is a transnational capitalist class who is conspiring in orchestrated manner, as many critical accounts would argue (see Sklair, 2001), the current configuration of power works 'primarily to the benefit of a new European 'champions league' of financial services providers.' (Mügge, 2006: 922). However, rather than understanding financial capital as a general homogenous entity with harmonious interests, we need to acknowledge the power struggles within a financial industry that is constituted by actors with differential capitalisation, for example the power struggle between the investment and commercial banks (Hager, 2012).

While the Bretton Woods system put a break on the commodification dynamic, although that decommodification was only partial because workers were constituted as active consumers thanks to the expansion of credit and the production capacity under the Fordist accumulation regime (Konings, 2009; Lacher, 1999), the liberalisation of capital mobility and the integration of the banking, insurance and securities markets have had a tremendous influence on the socio-economic composition of European economies. Thus, Mügge's (2013: 459) insistence of reversing the old research question of how the EU financial integration is affected into: 'how has the Europeanization of financial regulation affected the political

economy make-up of Europe?’ might bring valuable insights about the recent developments. Finance is an important sector that allocates credit that has significant bearings on the real economy (Macartney, 2011). And unlike the orthodox economic view that sees finance as having no tangible effect on the real economy, the heterodox view understands that finance and money are not neutral and detached nominal spheres, but have a direct effect on output and employment in the economy (Trevor Evans, 2009; Harmes, 2001).

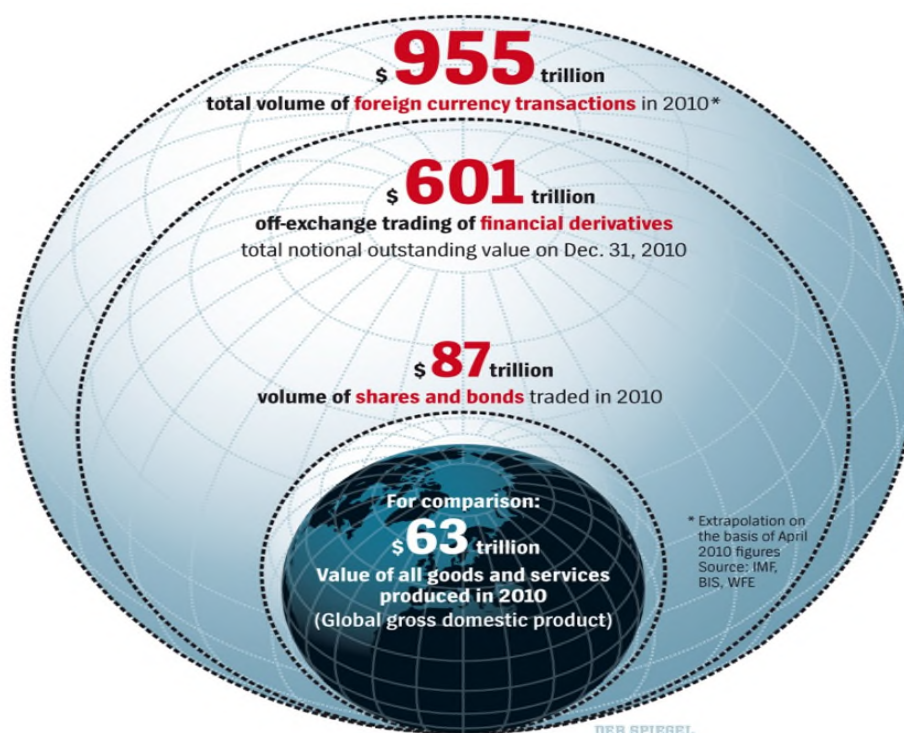
The onset of the neoliberal accumulation regime, whose origin can be traced back to the over-accumulation crisis, inaugurated exponential growth in the financial markets (Jessop, 2008; Overbeek, 2012; Harvey, 2010). The rising wages that marked the Keynesian dedication to full employment during the 1950s and 1960s resulted in inflationary pressures that manifested itself negatively on the rates of profit of the productive Fordist enterprises (Cafruny and Ryner, 2007b; Gill, 1999; Harmes, 2006). The Nixon decision to terminate the convertibility of the dollar and the Volcker shock that raised interest rates as a way of targeting inflation, are the two most important events that gave incentives for capital to find alternative venues for profit, mainly in the financial markets (Hager, 2012). In a nutshell this is the conventionally accepted narrative about the rise of the finance-led accumulation project.

4.2.3. Finance-led Accumulation

The size of the world’s capital markets, including equity, bonds and loans, has increased from \$175 trillion in 2008 to \$212 trillion in 2010 (McKinsey, 2011). If we include the size of the Forex market and the markets for derivatives in the overall size of the financial markets, we will obtain a giant number that dwarfs the value of the real GDP in the world, which stands at a mere \$63 trillion. In the current

deindustrialised age the yield is no longer secured through surplus-value extraction in the productive sectors; but rather through the trading of sophisticated financial products (Macartney, 2011). Financialisation has given rise to numerous innovative financial vehicles that have a fictitious nature, most remarkable of which are the derivatives, which are types of securities that entail the unbundling of a specific characteristic of a given underlying commodity, be it its change of price, risk, or possibility of default, and trading it without having to trade the commodity itself (Trevor Evans, 2009).⁴¹

Figure 3 Volume of Financial versus Real Markets



Source:<http://www.economicsinpictures.com/2011/09/size-of-financial-markets.html>

⁴¹ Financialisation is understood as: 'patterns of accumulation in which profit accrue primarily through financial channels rather than through trade and commodity production' (Overbeek, 2012:33).

The finance-led accumulation regime has increased the importance of equity finance in Europe, where previously most of the corporate funding was secured via bank credit. Although bank loans still account for 50% of the corporate debt in the EU, which is much bigger portion than the 20% in the US, the trend of disintermediation is increasing (ECB, 2013a; Eurostat, 2001)⁴². Although the difference between the EU and the US in the share of credit finance (51% and 18 % respectively), equity finance (24% and 38% respectively) and bond finance (25% and 44% respectively) remains high, (ECB, 2011a), there is a notable increase of market capitalisation of stocks in the EU from a mere 25% of GDP in the 1990s, to 90% in 2000 (ECB, 2001; Bieling, 2003).

Whereas banks can serve a proper function of intermediating funds between borrowers and savers, companies increasingly raise funds from capital markets by issuing shares, thanks in no small part to corporate restructuring, privatisation, and mergers and acquisitions activities (ECB, 2001). However, disintermediation comes at a price. If the previous close link between the banks and the management of companies in the coordinated varieties of capitalism secured investment based on the assessment of the underlying strength of the company, the funding provided via the equity market relies on investment information that ‘derives principally from market signals, the signals transmitted by share prices primarily reflect expectations about the immediate outlook of profits’ (Trevor Evans, 2009: 19). What matters more is the fulfilment of short-term performance, rather than long-term strategies, which in turn, forces management to downsize, reduce retained earnings, acquire debt, and pay higher dividends. Such funding schemes empower shareholders, who can punish

⁴² By observing a decline in the ratio of net interest income over net commission income of banks, Eurostat identifies a diversification of the portfolio of banks, which shows the decline on reliance of commercial loans.

managers' decisions by the power of exit, i.e. sale of their share (Horn, 2012; Macartney, 2011). Financial markets have become 'both an active manager and demanding claimant of the economic product generated in the nonfinancial sector' (Lewis and Perry, 2012: 94). Labour has found itself increasingly at the losing end because the current shareholder corporate control system disempowers the shareholders (Rhodes and van Apeldoorn, 1998). The best manifestation of the lost power of trade unions can be found in the falling wage shares of GDP and in increasing income inequality. In the advanced economies the share of wages has fallen by 10 percentage points from 75% in the 1970s to 65% in 2010, all the while corporate profit margins and productivity have been rising (Stockhammer, 2013).

Productive enterprises and their employees are not suffering because of the rise of equity finance, but because financial capital is increasingly allocated to the financial securities markets, rather than the productive outlets (Macartney, 2011; Lewis and Perry, 2012). High-yield risky investments in the asset markets, such as the real estate and household consumption markets are much more profitable than investment in the real economy. However, this risky investment has come at the price of increased indebtedness (Streeck, 2011a). If the publicly owned banks could previously mobilise resources and channel them towards industrial capital, liberalisation and privatisation in the EU have excluded the option of state subsidies. The best example in which EU State Aid rules have negatively affected the long synergy between banks and industry actors are the Länder-backed banks in Germany (Mügge, 2013; Rhodes and van Apeldoorn, 1998). The recent crisis has additionally squeezed the credit supply to the industrial sector as the ECB (2013b) reports a tightening of banks' credit standards for loans to enterprises.

Polanyi (1944) observed that it was not the incidental action of the Concert Diplomacy that preserved the Hundred Year Peace that marked the nineteenth century, but it was the ‘powerful moderator’ *haute finance*. Yet, he added that the destruction brought by the World Wars in twentieth century had its origin in the utopian project of the self-regulating market. Is not finance playing a similar role in the provision of social stability nowadays when the stakes of radical change of the system have become too high for the placated middle class, which has been able to benefit from the exponential expansion of cheap credit? The permissive regulatory framework (Basel II) has allowed the highly leveraged banks to escape capital reserve requirements through a process of asset securitisation (Major, 2012). Basel rules gave incentives to banks to cherry-pick riskier activities that belonged in the same, but highly heterogeneous, risk bucket category – such as the claims on the private sector. In doing so, they could manipulate the balance-sheets and hide the actual size of their capital reserves (Major, 2011). The expansion of cheap credit in our economy was secured thanks to the sophisticated accounting practices by banks, which were put in charge of prudential oversight. The available credit has neutralised temporarily the antagonism between labour and capital by bringing immediate prosperity to households, whose income has been curtailed by the retrenchment of the welfare state and stagnant wages (Lewis and Perry, 2012; Streeck, 2012b). Unfortunately, that prosperity is only at the level of appearance because it is built on the shifting sand of rising asset values (Macartney, 2011: 60). The wealth illusion is predicated on the expansion of the market society, which has planted the seeds for the next disruptive strain, given the soaring trend of household indebtedness (Frangakis: 2009; Streeck, 2012). In the Eurozone the household debt-to-disposable income ratio has increased from 75.1% in 2001 to 98.61% in 2012 (Eurostat, 2013b). Those figures demonstrate

the emergence of what scholars like Crouch (2011) and Streeck (2011a) call a 'privatised Keynesianism'.

Polanyi (1977) argued that individual acts of barter did not establish the market, but state intervention did. And this is particularly valid for the gigantic financial market in Europe, which was established through concrete action on the part of public authorities that removed any pre-existing obstacles to the endless accumulation of interest-bearing capital. Whoever the agency might be, the effect of the Commission-led project of financial integration and liberalisation has resulted in the extension of the market pattern, whereby the gain motive has colonised and governed all aspects of economic life. In this era of finance-led accumulation, where income is generated through the creation and sale of more fictitious products, the progress or *improvement* as measured by the growth of the financial industry, has again manifested itself in great social dislocations, growing poverty, unemployment and inequality to name just a few.

The recent financial crisis is here to remind us of the dangers of liberalised, augmented in size, over-leveraged and loosely regulated financial markets, which have been the lynchpin of the neoliberal accumulation regime. Volatilities in the financial system can have serious repercussions for the whole economy. The Great Recession has shrunk output, increased unemployment and brought huge losses on pension fund assets (Hinrichs, 2011: 110). It has induced extreme costs on the government purse, which resulted in soaring debt-to-GDP ratios across Europe (Wigger and Buch-Hansen, 2014). A sovereign credit of the magnitude of €4.5 trillion, which accounts for 37% of the EU's GDP, has been put at the disposal of the same players who have unwarrantedly raised the risk premiums on the distressed

periphery, despite the contrary evidence from their economic fundamentals (De Grauwe and Yuemei, 2012). Moreover, the crisis has resulted in more consolidation of the credit institutions, which is ironic given the newfound peril of the ‘too big to fail’ concept (ECB, 2013a).

The very immediate cause of the financial crisis can be credited to the freezing up of liquidity following the crush of the sub-prime mortgage market in the US, in which the over-leveraged European banks were implicated. The scholarship identifies two simultaneous and interrelated processes that directly led to the emergence of many bubble markets, be it a dot.com stock bubble or housing bubble: disintermediation and securitisation (Blyth, 2013; Panitch and Konings, 2009; Krugman, 2012; Lewis and Perry, 2012). The two processes can be retrospectively connected with several important events:

- a) the emergence of the giant diversified corporation that could bypass commercial banks’ loans by investing in business from retained earnings and engaging in intermediation itself (Blyth, 2013),
- b) the Volcker shock that rose interest rates incentivised corporations to search for alternative funding to the pricy loans offered by commercial banks, which they found in the securities market; which, in turn, led to the rise of the investment banks that become principals rather than mere agents in the securities trading (Hager, 2012),
- c) the repeal of the Glass-Steagall Act that insulated commercial banks’ businesses from investment activities with the Financial Services Modernisation Act in 1999, which, in turn, indirectly led to the creation of ‘too big to fail’ credit institutions (Gamble, 2012). The erosion of the post-Great Depression banking regulation

allowed commercial banks to make use of the deposits on their balance sheet for their risky investment in the securities market (Panitch and Konings, 2009). This blurring of the boundaries between the insurance, commercial, investment and retail businesses of financial institutions amplified the problem of systemic risk that eventually threatened all the segments of the financial system in the world (Blyth, 2013)

- d) the exemption of investment banks from the Securities and Exchange Commission's net capital rule of maintaining a debt no bigger than 12 times their equity in the US in the 2000s, which led to a spectacular increase of 42% in the leverage of the self-monitored investment banks from 2001 to 2007 (Hager, 2012). The large leverage ratio, i.e. the ratio between assets (loans and mortgages) relative to equity (reserve capital), was a disaster waiting to happen, especially if the value of the assets falls as was the case with the plummeting of housing prices in 2007 (Blyth, 2013).

Following disintermediation, banks increasingly relied on the shadow-banking system for securing their short-term access to capital. The emergence and the increase in volume of shadow-banking is identified as the most important cause of the financial crisis in 2007 because it allowed for the problem of maturity mismatch between short-term liabilities (deposits) and long-term assets (mortgages) to flourish in the financial system. Schwartz (2012) argues that privatised Keynesianism has eroded the protection against maturity mismatches, which previously was secured by the welfare state that maintained a safe credit supply by matching long-term liabilities (pensions) with long-term assets (mortgages). In the neoliberal era pension funds are no longer the main holders of mortgage assets, but instead banks borrow in short-term repo markets and invest in long-term assets, such as mortgages. Following the emergence

of effectively universal banks in the US, a combination of very sophisticated financial instruments were put in place that implicated all segments of the industry and led to the prevalence of maturity mismatch (Blyth, 2013; Schwartz, 2012; Major, 2012; Panitch and Konings, 2009):

- a) creation of collateralised-debt obligations (CDO), a derivative,⁴³ that re-bundled different mortgages payments into a homogenous pool, which is later sliced and sold into tranches with varying risks, which ended on the books of various institutions across the globe including major European banks. As the demand for these securities increased, banks resorted to even more lending to a risky category of clients.
- b) the above CDO securities were traded by banks via structured investment vehicles (SIV), separate accounting entities that were not part of the banks' balance sheets, hence allowing banks to maintain high leverage ratios. The trading of the CDOs via the SIVs created maturity mismatches whereby banks borrowed short-term in the repo market to finance their purchases of CDO consisting of long-term assets (trenched mortgage payments). SIVs enabled banks to profit thanks to the differentials between the lower interest rates at which they could borrow short-term funds and the higher interest rates at which they could issue long-term loans.
- c) banks resorted to credit default swaps (CDS) when trading CDOs as a way of hedging against the risk of default, which was minimal when the house prices were high. However, the risk probability modelling of the issuers of the CDSs, based on the assumption that the probability of default is a classical bell-shaped curve, proved to be miscalculated by the rating agencies that assigned AAA

⁴³ Derivatives are unconventional assets that derive their value from an underlying asset. They are contract, a bet against a movement of interest rate or price (Blyth, 2013).

ratings to the mortgaged-backed securities that flooded the markets. The virtuous cycle in the early 2000s turned into a vicious downward spiral in the late 2000s. When the probability of mortgage default increased, the CDOs were devalued, which, in turn, increased the CDSs insurance claims. It is the very connectivity of the whole financial industry which made the whole risk systemic. The default of the investment bank Lehman Brothers immediately dried the liquidity of the insurance giant AIG.

When in the 1990s the dot.com bubble burst investors looked for alternative investment in assets that were not only uncorrelated to equities, but were assets ‘uncorrelated in their own class’, which they found in the real estate market, where the prices were pushed up by 70% in the US and 170% in Ireland (Blyth, 2013). However, following the drop in house prices in 2007 and the rise of interest rates by 4% points by the Federal Reserve between 2004 and 2006 as a response to the falling dollar, mortgage defaults increased from 4% in 2006 to 17% in 2007, especially among the subprime borrowers, who represented 28% of the mortgage market and relied on creative home equity management dependent on ever-rising house prices (Panitch and Konings, 2009; Hay and Wincott, 2012).⁴⁴ As the value of mortgage-backed securities fell banks could no longer use them as sound collateral on the repo markets where banks raised short-term funds. The over-leveraged banks’ inability to borrow led to the infamous liquidity squeeze. The banks’ asset-dumping, including high-quality ones, in order to secure funding for their operations, triggered a contagion in the whole system that froze lending and raised inter-bank rates.

⁴⁴ Hay and Wincott (2012: 213) argue that the subprime mortgage crisis in the US burst ‘not so much because of the extent of its financial and broader economic imbalances, but because of the severity and timing of the Fed’s recalibration of interest rates’.

Major (2012) identifies two causes for the exponential growth of asset-backed securities, which in Europe increased 500% from 1995 to 1997:

- a) the Basel rules incentivised banks to securitise their assets because it enabled them to engage in regulatory arbitrage of the capital requirement. The rigidity of the Basel I's 'risk bucket' categories, whereby all private sector claims were assigned the same risk of 100%, stimulated banks to cherry-pick, i.e. invest in riskier assets within the same 'risk bucket'. Basel II introduced internal-based ranking system and entrusted private rating agencies to assess the risks.
- b) the inflation-targeting of independent central banks that lowered the interest rates and incentivised investors to look for higher yield alternatives. The losing legitimacy of the activist macroeconomic management, which resulted not from 'the inherent contradictions of the Keynesianism economic paradigm', but from the successful political orchestration of a crisis narrative that was not merely retrospective but performative (Hay, 2010: 447), led to the emergence of depoliticisation of monetary policy in the forms of independent central banks, monetary unions, currency boards (Kelsey, 2003).

If in nineteenth century *laissez-faire* capitalism the Gold standard and new-constitutionalism were the two instruments which voiced the interests of the City of London, as Polanyi (1944) has rightly observed, then the Basel banking regulation that was supposed to eliminate the systemic risk problems, combined with the inflation-targeting and price stability objectives of the technocratic central banks, were the epitome of the reinvented self-regulating market doctrine in the neoliberal era. The Basel Accords and the inflation-targeting regimes clearly demonstrate the active role played by the public authorities in enabling the extension of the market creed (Major, 2012). States bear a responsibility not merely for allowing, but for

actively promoting the finance-led accumulation regime. Little did the average European borrower know about the sophisticated financial instruments erected in the market-friendly regulatory framework, yet it is the sole subject who bears the burden of the recession. Knowing the actual cause of the crisis, it is disconcerting to see how little the post-crisis reforms have addressed the uninterrupted trend of securitisation. The financial reforms proposed and implemented by the Commission merely try to introduce transparency and stability, rather than challenging the foundations of the increasing financialisation of the European economy.

It is in the continued commitment to the same finance-led accumulation regime that we best see the operation of the principle of *improvement*. It remains to be seen how much the post-crisis reforms would mitigate the risk of an even bigger financial crisis unfolding in the future. This dissertation subscribes to those views that see the recent economic crisis as just the symptom of a much more complicated underlying cause of the crisis which can be found in the contradictions of the financialisation of global capitalism (Watson, 2014b). Streeck (2011a) who sees the crisis not as a temporary deviation from the equilibrium, as argued by the monetary orthodoxy, but as a constant feature of capitalist development, argues that the recent sovereign indebtedness is the 4th stage of a crisis that manifested itself previously in three major crises: a) first in the late 1960s with rising inflation and the expanding welfare state following the full-employment commitment, b) then in the 1980s following the disinflationary policies of Reagan and Thatcher that inaugurated the neoliberal era which led to rising public debt and stagnant growth, and c) finally in the early 1990s the stage of privatised Keynesianism emerged which increased private indebtedness.

4.3. Education and Training Policy

Education policy can be considered a high politics issue which member states are less willing to delegate to the supranational level. Contrary to competition policy, education and training can hardly be considered to be a supranational policy domain. However, despite the lack of the Community Method, EU education policy can be characterised both in intergovernmental terms thanks to the Bologna Process initiated in 1999 and in transgovernmental terms thanks to the Lisbon Strategy launched in 2000. With the Lisbon Treaty education policy became a supporting competence, whereby the EU's measures are only playing a supplementary role to the member states' efforts (Dony, 2009). Regardless of the legislative safeguards against harmonisation through EU law provided in the Lisbon Treaty, we are witnessing an increasing cooperation and coordination of education policies through the Open Method of Coordination, which consists of 11 thematic working groups streamlined within the Education and Training Annual Monitor.

The historical development of education policy at the EU level follows a unique path. Although the Treaty of Rome did not envisage the creation of a separate policy in education, the needs of the Internal Market, especially the recognition of diplomas, gave impetus for a minimal cooperation in this field. Numerous programme and initiatives have been implemented to reflect the growing demand for cooperation in the field such as: the Bologna Process,⁴⁵ Erasmus Mundus, Leonardo da Vinci, Tempus, Socrates, the European Qualification Framework (2008/C 111/01). The institutional fora at which common goals and objectives are set consists of various bodies: the committee on culture and education at the European Parliament, the Education, Youth and Culture Council, DG Education and Culture, DG Research and

⁴⁵ The Bologna Declaration from 1999 has been signed by members out of the EU.

Innovation, the Education, Youth, Culture and Research Commission under the Committee of the Regions. These institutions are further supported by various Agencies: such as the European Centre for the Development and Vocational Training, the European Training Foundation, the EURYDICE – Information Network on Education, the Education, Audiovisual and Culture Executive Agency and the European Institute of Innovation and Technology.

4.3.1. Stages

Walkenhorst (2008) divides the history of education policy into three phases:

- a) The pre-Maastricht stage when the Community did not have any legal competence specified in the Treaty of Rome. The initial legislative efforts were based on Article 57 which empowered the Council of Ministers to ‘issue directives for the mutual recognition of diplomas, certificates and other evidence of formal qualifications’. In addition, the Treaty of Rome contained Article 128 which predicted the creation of a common vocational training (VT) policy that will respond to the needs of the Single Market. The first legislative efforts in vocational training were the Council Decision establishing common principles (63/266/EEC) adopted in 1963 and Regulation (337/75/EEC) creating the Centre for Vocational Training.
- b) The interim stage from 1993 until 1999 when a separate policy competence was created in the Maastricht Treaty, under Title VIII which included Articles 126 and 127. The former stipulated the objectives of the Union’s actions, which aimed at supporting the member states efforts and enhancing member states cooperation in education and vocational training, while the latter empowered the Union to implement a vocational training policy.

- c) The present stage when education policy is aligned with the competitiveness agenda. Following the Lisbon Strategy, we are witnessing an increase in policy output in this policy field which did not only result in more coordination at the EU level, but a dissemination of a common economising logic within the diverse member states' policies (Bache, 2006; Mitchell, 2006). The discourse of competitiveness, which Rosamond (2002: 169) reminds us has been invoked as external compulsion in order to justify the involvement of the Commission in domains where it has no formal prerogatives, has been once again revoked to legitimate the proactive role of the EU public authorities in redefining the purpose of education policy.

The Europeanisation of education policy does not imply a convergence of the diverse educational systems among the member states. Scholars have emphasised the difficulty of inducing full-scale harmonisation, even in more salient domains such as corporate governance which the Commission has strived to accomplish for a longer time (see Clift, 2009a). The education domain is characterised by diverse national models each rooted in their own variety of capitalism. However, if there is one mechanism through which the Europeanisation of a common education objectives and norms are created it is through the Open Method of Coordination (OMC). The OMC relies on a soft-law mechanism which is imbued with productive power operating through constitutive social relations mediated through discourse (Barnett and Duvall, 2005b; Sending and Neumann, 2006). The OMC aims to shape the normative basis of what constitutes a legitimate education policy. Through the exercise of benchmarking, which is a one example of *technology of power*, the OMC is able to normalise certain practices as appropriate, while delegitimising other measures. The OMC serves two functions: legitimisation and regulation, which are marked by a constitutive causality

that guides behaviour, but does not cause it in a linear fashion (Kratochwil and Ruggie, 1986).

Out of the dialogical exchanges on the best practice among the member states, new common norms will emerge that will eventually exert a prescriptive pull on the actors in the system. At the very beginning of this process, the behavioural effectiveness (whether all actors uphold the principles) is irrelevant. Rather, what matters is whether and how they interpret that incident of deviation (Hasenclever, Mayer and Rittberger, 2004). If they do engage in justification it means that they do not challenge the validity claims of the norms. The peer review is capable of destabilising the regimes by fostering public justification, which in turn represents a ‘shift from accountability as rule following to accountability as the justifiable exercise of discretion subject to peer review’ (Sabel and Zeitlin, 2010: 14). Constructivists recognise the voluntary nature of this regime not as a shortcoming but as an opportunity because the ‘power of membership’ will create a sense of obligation independent of sanctions and instrumental benefits, thus inducing compliance. Franck (1988) explains how the voluntary nature of certain arrangements is not an impediment to compliance, as long as the norms are perceived to be legitimate. By participating in the OMC method, states reconstitute their ontological horizon of possibilities. Although the OMC is voluntarily in nature, the very moment parties start engaging in discursive practices through reporting, monitoring and scoreboards, they also start modelling the intersubjective background knowledge, which has the power to legitimise certain actions and deem others inappropriate.

For the purpose of filtering the policy output concerning education issues, the EUR-LEX database was used. There are total of 1797 policy documents in the education

and training domain, 97 of which are secondary legislative acts. The interpretive analysis of the EU education domain shows a clear trend of instrumentalisation of education policy. I would like to reiterate that the purpose of this study is not to investigate the exact processes that led to specific policies, but to critically appraise the content of the policies from a Polanyian perspective. The discussed policy output does not result in a uniform application of the soft-law measures across the union; nonetheless its epistemic power deserves our attention.

The evidence suggests that the extension of the disembedding tendency, grounded in its constitutive *improvement* principle, has been unfolding through: a) the commodification of education by the reduction of the purpose of knowledge production to that of economic gain, b) the discursive construction of a universal subject equipped with the ‘right marketable skill set’ which serves the needs of the knowledge-based economy, and c) the introduction of the economising principles within the governance structure of higher education institutions which aims to integrate universities closely within the capital accumulation circuit.

4.3.2. Commodification of Education

The new Education and Training 2020 Framework (Council Conclusion 2009/C 119/02), which succeeded the Lisbon Agenda aims to secure ‘sustainable economic prosperity and employability’ which should be realised by focusing on mobility, lifelong learning, and efficiency. We are witnessing a hollowing out of the public purpose of education policy by putting it in a subservient role to the needs of the economy. Rather than projecting the attainment of knowledge as the ultimate objective of the education policy, the new policy identifies education ‘as a key measure in Europe's response to globalisation’ (European Parliament and Council

Recommendation 2006/962/EC). The recourse to globalisation is a perfect example of the invocation of the globalisation discourse, which is performative in its ability to materialise that which it merely purports to describe (Hay, Watson and Wincott, 1999).

The examination of the policy output in the education domain suggests a significant presence of the ‘competitiveness’ compulsion in the reasoning behind why we need a special kind of education policy which is market oriented (Council Conclusion 2010/C 135/03; Council Recommendation 2012/C 398/01; COM/2006/33; COM/2009/158; COM/2011/567). The invocation of competitiveness, which has been legitimated as the overriding objective of the Union, is used to justify the construction of a particular type of education policy that meets the needs of the labour market. The New Skills for Jobs flagship initiative from the new 2020 Agenda justified investment in education and training not because of its own intrinsic worth. Instead, ‘investment in education and training systems, anticipation of skills needs, matching and guidance services are the fundamentals to raise productivity, competitiveness, economic growth and ultimately employment’(COM/2010/682). The danger of emphasising mainly the economic benefits of education rests in the type of measure it legitimises, while neglecting all other potential contributions of education policy for society at large. The new evidence-based policy-making at the EU level makes the policy-making process performance oriented. However, those criteria that are used to evaluate the performance of policies are geared towards the needs of the market. An education policy that does not manage to generate the right kind of knowledge that has immediate economic returns is considered to perform sub-optimally.

By reducing the objective of education policy to that of being a service to the Single Market, the policy output institutes only certain measures that match the needs of the labour market (Council Conclusion 2010/C 135/03). The knowledge-based economy is purported to require a special type of subject endowed with a specific set of transferable competences capable of providing economic returns. No longer will education serve the purpose of broadening the spectrum of knowledge and enlightening the politico-social understandings of the people. Instead, up-skilling is justified only if it improves the employment prospects of workforce (European Parliament and Council Recommendation 2008/C 111/01). It is in this act of connecting education to the *improvement* of the labour market that we see the spread of the disembedding tendency. Just like during the industrial revolution when economic progress required the improvement of the techniques of production, economic progress requires the increased role of government in fostering the right kind of knowledge production process (Polanyi, 1944: 35-39).

The new education policy paradigm foresees the modernisation of higher education as the instrument to increase Europe's competitiveness on the global level (Council Conclusion 2011/C 372/09). The creation of a European Higher Education Area (intergovernmental regime through the Bologna process 1999) is sought after because of its ability to induce economic growth by making the economy research-intensive. This devalues the roles of universities to a single purpose 'as a main contribution to Europe's competitiveness' (Council Resolution 16096/1/07). In doing so, the wider purpose of universities as places where humans are able to nourish their potential and think critically is being neglected. There is no space for critical pedagogies in the context of a new found economic purpose of universities, whose governance models require restructuring that will make them more efficient in producing subjects

equipped with entrepreneurial skill set. This, in turn, has the potential to ‘annihilate all organic forms of existence’ (Polanyi, 1944: 171).

4.3.3. The Right Skill Set

The extension of the market rationality is not solely seen in the subjugation of education to the economic gain principle, but also in the discursive construction of universally valid competitive subjects which transforms humans into economic agents. The way education is made to induce economic growth is by fostering special type of subjectivities that can be immediately rendered productive from the standpoint of the knowledge-based economy. The post-Lisbon policy output has successfully standardised neoliberal terminology by validating learning outcomes that support mobility, employability and entrepreneurship (Council Recommendation 2012/C 398/01; COM/2006/33; COM/2009/158; COM/2011/567).

We are witnessing a discursive construction of the perfect neoliberal subjects: mobile, flexible, self-disciplining, and competitive (Bache, 2006; Mitchell, 2006; Lister, 2001). Every attempt is made to link education to business because the knowledge-based economy ‘needs people with the right mix of skills: transversal competences, e-skills for the digital era, creativity and flexibility and a solid understanding of their chosen field (such as in Science, Technology, Engineering and Maths)’ (COM/2011/567). The new policy calls on universities to foster entrepreneurship and generate transferable knowledge skills (COM/2009/158). Instead of nurturing a renaissance type of personality acquainted with vast subject areas, the new policy engenders subjects with specialised expertise committed to life-long learning (Council Conclusion 2006/C 298/03). Students are transformed from learners to consumers, while universities cease to be cultural centres and become factories of

compartmentalised skill set. However, the ‘right skill set’ argument is based on a flawed understanding of the causes of unemployment which Krugman (2012) reminds us reside in the lack of aggregate demand, rather than the insufficient skill set.

4.3.4. Universities as Neoliberal Subjects of Governance

Another domain where we see the extension of the disembedding tendency is the governance structure of higher education which under the new market rationality is forced to change its underlying objective. This new found economic purpose of universities necessitates a certain restructuring of governance models to make them more efficient in the production of new subjects equipped with limiting entrepreneurial skill set (COM/2002/779). The proposed route to the modernisation of higher education institutions emulates the functionally superior business models in that it demands that universities adopt ‘more flexible governance and funding systems...reducing restrictions: on raising private revenue, on capital investment, on the ownership of infrastructure, on the freedom to recruit staff, on accreditation...investment in professional management’ (COM/2011/567). The New Public Management Agenda with its sole focus on efficiency has colonised the educational domain and it is here that we see best the extension of the disembedding tendency predicated on the narrow formal understanding of the economy against which Polanyi (1977) militated ferociously.

Universities, which are required to monitor and evaluate their performance, have become subject to neoliberal governance; however mainly with regards to specific learning outcomes that are deemed relevant to the business world (Council Conclusion 2006/C 298/03). The launch of the U-Multirank ranking system demonstrates how the market-organising principle is taken as the ideal model for

higher education institutions, which should become marketable and compete for potential users (COM/2011/567). Universities are seen as essential part of the capital production system. It is argued that 'higher education institutions can drive economic development' (COM/2011/567). Their role is to generate the needed labour force by creating 'knowledge alliances' with the business sector. The new governance model requires high adaptability because universities' 'curricula are often slow to respond to changing needs in the wider economy' (COM/2011/567).

Under the new 2020 Strategy, the Commission has recognised research and development (R&D) as the most important drivers of economic growth (COM/2010/612). The investment in education is purported to bring huge economic returns (COM/2009/158). Having that in mind, the 2020 Strategy introduced a quantitative benchmark for R&D expenditure asking states to increase expenditure from the current 1.3% to 3% of GDP. In the context of austerity this call for an increase in R&D expenditure is an archetypical supply-side measure, whose potency in generating economic growth are minimal under the current conditions of austerity. Even if states found the necessary public funds to increase their R&D expenditure and even if universities generated labourers with the 'right skill set', the economic gains would not be visible in the context of low aggregate demand that has a negative effect on economic output.

Recognising the current fiscal constraints the Commission proposed new sources of private funding that necessitate the restructuring of the governance models of universities. Namely, the way higher education institutions are supposed to get more funding is by introducing (COM/2011/567):

‘more flexible governance and funding systems which balance greater autonomy for education institutions...But legal, financial and administrative restrictions continue to limit institutional freedom to define strategies and structures and to differentiate themselves from their competitors. The efficiency of higher education institutions and so the effectiveness of public investment can be enhanced by **reducing restrictions**: on raising private revenue, on capital investment, on the ownership of infrastructure, on the freedom to recruit staff, on accreditation. Investment in **professional management** can provide strategic vision and leadership while allowing teachers and researchers the necessary academic freedom to concentrate on their core tasks.

What we see in the education domain is the transplanting of the economising principle that Polanyi (1977) painstakingly tried to discredit. Probably one of the most important contributions of Polanyi (1977) was his critique of neoclassical economics’ formal understanding of the economy which has projected the economising principle onto society. The current extension of the market society in previously decommmodified domains is problematic not because it is ‘based on economics’ but because its economy is ‘based on self-interest’ (Polanyi, 1944: 257). Unfortunately, instead of trying to shelter the knowledge production domain, the current education policy which is being promoted through the OMC is trying to introduce the competitive price-making market into its remit. The above calls, for ‘investment in professional management’ and for reducing restrictions on the ownership of infrastructure, transform the core objective of the universities from one of provisioning of education to one of economising between scarce resources. This

inversion of priorities stems from the economic fallacy that, as Polanyi (1977) argued, ignored the human condition.

The Lisbon Strategy brought into existence the Lyotard's postmodern condition where knowledge becomes the major commodity with the biggest productive potential (Roberts, 1998). While industrial capital required the commodification of land and labour, post-industrial capitalism is marked by a tendency towards the commodification of knowledge (Jessop, 2007). Moreover, the extension of the neoliberal creed compared to the liberal creed is more profound in inducing qualitative changes because it is concerned with producing special neoliberal subjectivities in the image of the market (Shamir, 2008). The neoliberal discourse has called upon individuals to take more risks in the new knowledge-based economy by bestowing them with a 'moral obligation to be employable' (Lakes, 2008: 338). Instead of education serving a greater public good, the current policy puts it at immediate disposal to capital (Mitchell, 2006). The knowledge-based economy makes redundant very valuable fields, such as poetry, art and music, whose immediate contribution to the economic growth are not demonstrable. The pursuit of study within these fields is worthwhile for reasons other than economic ones (Walkenhorst, 2008).

The numerous policy documents demonstrate how the profit motive has gained salience within non-economic domains such as education (Lakes, 2008). This in turn, is a perfect example of how the economic gain has crowded out other concerns. From a Polanyian (1944) perspective the marketisation of academic excellence is problematic. Education has its own intrinsic worth that goes beyond the economic growth imperative. By focusing solely on how education can bring economic gain, we

corrupt the essence of knowledge and its emancipatory potential. Knowledge and enlightenment are good without qualifications and they should be the end goals themselves, and not the means to economic competitiveness. The proposed prioritisation of entrepreneurial competences directly benefiting the needs of the labour market will change drastically the disposition of humanity because no longer will education be here to culture certain ethico-political sensibilities. Such prioritisation annihilates the pursuit of those virtues and skills that profit the soul and not the economy.

EU education policy reduces the human capacity to generate knowledge to a commodity by assigning a monetary value to our cognitive capacities. Input-output modelling quantifies education and makes it readily available for sale, following the proper quantification, certification and recognition. The danger lies in the act of focusing all our effort in the production of knowledge that can be immediately rendered productive. The problem is that knowledge, just like land and labour, is a fictitious commodity, i.e. not produced for sale (Polanyi, 1944). Knowledge is a comprehensive phenomenon intrinsically related to our human capacity, whose use value predates the exchange value. The goal of education is to empower people to be able to understand a wider range of subjects and bestow various intellectual virtues that go beyond mere entrepreneurship.

*

The above exploration of the policy fields of competition, finance and education powerfully demonstrate the established presence of the neoliberal creed and its continued extension in the post-crisis period. The selection of the policy fields aimed to demonstrate the variable geometry and the uneven development of the neoliberal

creed, as one of its constitutive features (Brenner, Peck and Theodore, 2010; Harvey, 2005; Hermann, 2007; Hall and Lamont, 2013). The disembedding tendency has manifested itself in all three policy fields marked by very different institutional features, some are exclusive EU competences – namely competition, some are shared – as in the case of finance, and some are only supportive – such as education. The market creed has been extended in all three policy fields irrespective of their legislative instruments, be it the Community Method or the OMC. And although these policy outputs do not have a universal effect across Member States, they nonetheless possess a mixture of epistemic, institutional and coercive power that qualitatively redefines the EU polity.

In the EU the establishment of the internal market for goods, services, labour, and capital is underpinned by a disembedding tendency. The construction of the Single Market, which is predicated on competition as the core principle since the Treaty of Rome, has led to a partial eradication of the redistributive measures introduced during the post-war period. Regardless of the lack of total retrenchment of the welfare state, the varieties of capitalism in the EU are undergoing structural transformations which are unevenly spread across Europe (Ashiagbor, 2013). Unfortunately the extension of the neoliberal creed is not limited to the discussed three policy fields. We are seeing a commodification of pension systems, whereby the tax-funded redistributive models built on universal norms of entitlement and the defined benefits pay-as-you-go models are substituted by multi-pillar models predicated on private and notional contribution schemes of individual earnings (Belfrage and Ryner, 2009; Hinrichs, 2011). The same marketisation dynamic has spread to health care systems, which have experienced the whims of internal market rules through both public procurement regulation and patient mobility law. The former opens up providers of health care to competition

rules (Article 101 TFEU) and non-discrimination rules, while the latter codifies ECJ case law, of which most relevant were the *Kohll* and *Decker* decisions in 1998 (C-120/95 and C-158/96) which terminated the privileged status of social security services and opened them up to competition rules, and the *Watts* (C-372/04) case which ruled out the pre-authorisation clause for medical treatment abroad (Greer and Rauscher, 2011; Greer, 2008). If the old regulatory framework (Regulation 1408/71/EU) required patients to get approval for services abroad and reimbursed costs only for emergency care, the new Regulation (2011/24/EU)⁴⁶ erodes the ability of national social security systems to control the beneficiaries, the spatial aspect of consumption, the exclusivity of coverage within national borders, and the benefit providers' access rules (Ferrera, 2005). Caporaso and Tarrow's (2009) interpretation of the patient mobility case law as a sign of re-embeddedness could not be more standard deviations away from the actual effect of the rulings. Namely, if anything, the ECJ jurisprudence on cross-border access to social security has undermined the capacity of countries to deliver social provisions because the new exit option from health care systems undermines the solidarity principle on which the welfare state firmly stands (Ashiagbor, 2013).

The EU integration project nowadays is no longer about tackling national discrimination and hidden forms of trade distortion, which was secured through the ECJ jurisprudence; namely, through the case law of *Dasonville* (C 8/74) and *Cassis de Dijon* (C 120/78) which established the principle of *mutual recognition*. The integration project goes a step further and aims to reconstruct the welfare systems and bring them in line with a more market-friendly model as demonstrated with the

⁴⁶ The regulation stipulates that: 'As confirmed by the Court of Justice, neither its special nature nor the way in which it is organised or financed removes healthcare from the ambit of the fundamental principle of the freedom to provide services'.

contention over the Service Directive, the Takeover Directive and the Company Law (Höpner and Schäfer, 2010a, 2010b; Horn, 2012, van Apeldoorn, Drahokoupil and Horn, 2008). Höpner and Schäfer (2010a) beautifully present how following the rather docile years of integration that allowed for the coexistence of the varieties of capitalism from the 1950s until the 1970s where the ultimate goal was Custom Union, the EU accelerated the competition between the varieties of capitalism with the introduction of the principle of *mutual recognition*, which, in turn, diminished member states' authority over the goods market. The latest stage is that of convergence among the varieties of capitalism initiated with the integration of the service markets that started to systematically target any institutional arrangement that undermines the competition within the Common Market. The recent Service Directive (2006/123/EC) has tried to further the competition in the provision of cross-border services by guaranteeing the freedom of establishment. Regardless of the fact that the *country of origin* provision was removed from the Service Directive because of the huge divergence in labour costs that might lead to a race to the bottom, the European Court of Justice (ECJ) through the *Laval* (C-341/05) and *Viking* (C-438/05) cases has secured the de facto operation of the *country of origin* principle (Höpner and Schäfer, 2010a; Lindstrom, 2010; Ashiagbor, 2013). The evidence supports Dale's (2012), Streeck's (2012a) and Harvey's (2010) conclusion about the 'undead' hegemony of the neoliberal regime. Although resistance has found its way in the open-ended struggle of politics 'it is, consequently, only likely to have had a chance of success if the possible alternatives put forward were supported by a clear material basis rooted in the economy as well as the mobilisation of the related material power resources' (Bieler, 2011: 169). The EU multiscalar polity has its own strategic selectivity

because it is inscribed by constitutional asymmetries that favour certain social forces more than others (Jessop: 2008).

The continued extension of the disembedding tendency does not negate Polanyi's 'always embedded thesis' (Block, 2003), which stipulates that the economy is always socially constituted, however at the same it does not mean that the market economy has not disturbed the democratic principles and social norms of solidarity (Streeck, 2012b). Having examined the extension of the liberalising trend through the privatisation, commodification and depoliticisation processes in the three policy domains, the subsequent chapter attempts to explore the nature of the embedding tendency that accompanies the disembedding tendency.

Chapter 5 The Embedding Tendency

‘It is immoral to use private property in order to alleviate the horrible evils that result from the institution of private property. It is both immoral and unfair’

(Oscar Wilde, 1091)

Following the analysis of the disembedding tendency, this thesis will explore the developments that constitute the embedding tendency. Notwithstanding the indisputable intensification of the neoliberal creed demonstrated in the previous chapter, we should not ignore the increasingly visible activities at the EU level associated with social and environmental protection. Although these have been studied extensively within the parochial confines of their own policy domains, the social and environmental policies remain under-theorised from the general political economy perspective. Yet it is only through taking such a panoramic view as advocated by Streeck (2012b), whereby we juxtapose the developments of a few interdependent institutions, that we can systemically comprehend the transformative developments in the EU. Having explained the workings of the disembedding tendency, this thesis will now examine those measures at the EU level that strengthen people’s livelihoods. To that end, this chapter examines the two policy fields of social and environmental protection. These have been deliberately chosen to reflect Polanyi’s (1944) own emphasis on the commodification of both labour and land (environment). The significance of land and labour rests in the fact that these are the necessary preconditions for capitalist production which capitalism cannot reproduce itself, the so-called second contradiction of capitalism introduced by O’Connor, who postulated it as complementary to the first contradiction of capitalism between the forces of production and the relations of production (Castree, 2009). The other added value of this choice is that it allows us to compare two sets of policies, which as late

comers to the EU agenda are marked with varying degrees of Europeanisation,⁴⁷ and yet are both permeated by similar trends of marketisation.⁴⁸ The chapter's main concern is not to examine the specificity of each policy field in detail, in the conventional policy analysis manner, but rather to extrapolate a common tendency within both fields that is relevant to our discussion about the wider socio-economic configuration. The evidence presented shows that what matters most from a Polanyian perspective is not *how* the EU does things – either through the Community method or through the Open Method of Coordination,⁴⁹ but *what* it does – fundamentally changing the nature of the social and environmental policy by inscribing a market logic within their operation.

The explanatory value of this juxtaposition between the liberalising and the protective tendencies lies not in the seeming dualism, but in the contingent interaction that is crucial for the stability of the social order of capitalism. The changes we can observe in the nature of the protective measure are complementary to the disembedding tendency as discussed previously. Rather than seeing the social and environmental policies as a balance to the marketisation dynamic in the finance-led accumulation regime, we need to acknowledge that the two are evolving in a similar direction. The purpose of this chapter is to show how the transformation in one policy sphere should be 'recognized as part of a broad stream of transformative *systemic change*' (Streeck, 2009). The systemic change under consideration is the redefinition of the socio-

⁴⁷ Radaelli (2003: 30) defines Europeanisation as: 'processes of (a) construction, (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things', and shared beliefs and norms which are first defined and consolidated in the making of the EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies'. The Europeanisation literature studies the transformations of the domestic polity under the conditioning of the EU integration process by assessing the level of harmonisation, convergence, and divergence of policies among member states.

⁴⁸ Marketisation refers to the process of extension of the market domain to previously unaffected areas.

⁴⁹ The question of how the EU does things have been extensively studied within the EU studies literature. But, I argue that often such questions focused on the form distract us from more fundamental issues.

environmental paradigm, which has been colonised by the market rationality. The evidence brought forward from the socio-environmental policy domains, shows that contrary to the conventional socio-environmental protection which stood against the market, the new measures are increasingly acquiring market form and rely on the market for their realisation. The embedding tendency is marked by the same marketisation dynamic that is typical for the disembedding one, which from a Polanyian perspective represents a fundamental shift that redefines the relationship between the principles of *improvement* and *habitation*.

This thesis makes a normative case against the extension of the market form in social and environmental domains on the grounds that such protective efforts are being reduced to a mere logistical exercise. By reducing the issue of provisioning of services to a logistical problem, the predominant economic thinking argues that as such it is better to leave it the market to provide given its superior provisional capacities. Polanyi's (1977) ferocious appraisal of neoclassical economics predicated on a formal understanding of the economy offers good starting point for a critique of the extension of the economising rationality within all social domains. By adopting an epistemological position where the allocation of insufficient resources becomes central problem around which we should reorient all human needs, the monetary orthodoxy has crowded out any other ethical and political considerations when securing our basic needs.

Polanyi (1944) was rigorous enough to ground the need for protection in the interests of society as a whole rather than in one class or segment of society. However, by denying consciousness on the part of those who promote protection, he unnecessarily

extended the inevitability beyond the mere need for self-preservation.⁵⁰ In doing this, he maintained a dose of functionalism, for which he criticised the neoclassical orthodoxy because it maintained the belief in the spontaneous emergence of the market system from humanity's propensity to barter (Dale, 2010). While this thesis acknowledges the need for self-protection for any social unit under threat, I also claim that this universally valid norm of self-preservation does not determine the type of action which requires consciousness on part of those operating under its influence. To quote Žižek (2012: 463): 'the necessity is here as a self-sublated contingency'.⁵¹ Social action is contingent on specific socio-temporal context and its bearers are always historical agents.⁵² We should note here that by not denying consciousness a say in the processes that bring about the socio-environmental protection, one does not automatically presuppose the existence of an absolute free-will, which itself is always grounded in the totality of the social and the material structures.

Socio-environmental protection can come in many forms and can arise from multiclass struggles. Polanyi (1944) was right to dismiss any concerted action, the so-called collectivist conspiracy, as illusory.⁵³ The actors that promote the protective measures are of various political dispositions and in some cases, Polanyi (1944) has argued that they can be even the most extreme proponents of the liberal ideas. The support of those actors is nakedly self-concerning because they are aware that the adamant commitment to the self-regulating market will irredeemably invalidate their

⁵⁰ Refer to the Chapter 3 on theory for detailed discussion of the issue.

⁵¹ Žižek's (2012: 466) view is that 'our freedom (free activity) retroactively creates ('posits') its objective conditions: these conditions are not simply given, they emerge as the presuppositions of our activity...we are simultaneously more free than we think (we freely "posit" the very necessity that determines us. This is why, to arrive at our "absolute" freedom (the free positing of our presuppositions), we have to pass through absolute determinism'.

⁵² Marx (1906) provides a useful Hegelian understanding of the dialectics between the freedom and necessity in his view about how people make their own history, all the while being constrained by the specific circumstances.

⁵³ 'Collectivist conspiracy' was a term used by the neoclassical economists who saw the rise of the trade unions and the new socialist legislation as forces that crippled the free market.

own position. More often than not, the various acts of dealing with the dislocations are promoted by those who are the biggest supporters of the principle of economic liberalism. In our particular case - the EU - the instigators of change can range from member states, EU institutions, social movements (Peter Evans, 2008), individual actions (Birchfield, 2005), organised social forces such as the trade unions – ETUC (Bieler, 2011) or the employers’ organisations – BusinessEurope, the community itself in the form of special economic circuits (Vali, 2010), market-shaping coalitions (Quaglia, 2012), the European Court of Justice (Tarrow and Caporaso, 2009) and so forth. This thesis acknowledges a wider array of actors that can instigate and provide protection from the vicissitudes of the market at different levels, however as already explained in the previous chapter, I do not follow an actor-centred analysis. As valuable as that might be, it fails to capture the meta-rationality and the ‘common structural force’ present in the consequences of the EU integration project (Cox, 1996: 516).

The methodology of the chapter relies on a combination of a number of techniques:

a) Exploratory expert interviews were conducted with policy officers from the DG Employment and Social Affairs and representatives from the European Anti-Poverty Network, one of the most prevalent transnational actors at the EU level engaging in anti-poverty advocacy.⁵⁴ In addition, I conducted interviews with people from DG

⁵⁴ I have undergone training at the VUB by professor van Audenhove who familiarised me with the different stages of the interviewing process. Namely, he discerned three stages: (i) exploratory, (ii) systematising, and (iii) theory-generating. Given that my research is mainly concerned with the outcome rather than the processes of EU decision-making, interviews play solely an exploratory role.

Environment which provided me with an orientation in the field and assisted me to structure better the problem.⁵⁵

b) I actively participated in the evaluative stage of policy-making at the EU level in that I was invited by the DG Employment and Social Affairs to participate as an independent researcher at the evaluation of the Second Convention of the European Platform against Poverty and Social Exclusion, one of the seven major Flagship Initiatives of the 2020 Agenda. This policy evaluation took place in Brussels from 5-7 December 2012. My involvement in the evaluation process enabled me with an ability to witness the discourse and the specific policy solutions proposed by the Commissioner Lázló Andor and the respective Ministers from the member states and listen to the responses coming from the civil society organisations. In addition, I was able to talk individually with both the EU level policy-makers, and also the national representatives from the respective member states' ministries in the field of social affairs and employment.

c) I conducted a secondary literature review which provided the necessary historical genesis of the social and environmental policies. The literature review enabled me to identify the key legislative instruments that were later classified using the NVivo software tool.

d) I did a cross-examination of the primary and secondary legislative measures, the ECJ jurisprudence and soft-law legislative initiatives such as the Open Method of

⁵⁵ The way I understand interview is distinct from the positivist view that sees them as neutral information generating tools, instead 'interviewing is an active process where interviewer and interviewee through their relationship produce knowledge. 'Interview knowledge is produced in a conversational relation: it is contextual, linguistic, narrative, and pragmatic' (Steinar and Svend, 2009: 18).

Coordination. The EUR-LEX database was the main source of the legislative instruments and the case law.

The structure of this chapter is divided in three parts. The first two sections attempt to bring to light the growing evidence of the scaling up of the social and environmental measures at the EU level respectively. The two policy fields diverge in their level of institutionalisation. Whereas the social policy is heavily reliant on soft-law governance tools such as the Open Method of Coordination, the environmental policy emerged as a fully-fledged EU level program marked by extensive binding regulative framework. Despite their differences, both the limited social and the more elaborate environmental policies deserve to be rehabilitated from the major neglect by critical scholarship,⁵⁶ since they constitute a protective tendency of some sort. The third section endeavours to understand and problematise the nature of the new socio-environmental paradigm. To this end, it introduces a Polanyian critique of the common trend of commodification that informs the socio-environmental protection, which emulates, rather than being a counter-force to the disembedding tendency.

5.1. Social Policy

While the critical approaches have done a great job of theorising and analysing the disembedded nature of the EU by focusing on the marketisation tendency in the economic and the monetary policy areas, they have overlooked the key trend of limited social protection especially evident from the early 1990s onwards. Although social policy as an object of inquiry has been extensively theorised by social policy experts, it has been relatively absent from the research agendas of the IPE scholarship. I here argue for a more nuanced reading of the recent socio-economic restructuring

⁵⁶ Refer to the Chapter 2 on literature review for detailed discussion of the issue.

along Polanyian lines that would integrate the transformation of the social and the environmental fields into the analysis of the Political Economy of the EU.

If Polanyi (1944) hinted at the simultaneous occurrence of disembedding and embedding tendencies, then we should carefully examine the nature of the social measures and see whether they inaugurate a re-embedding turn. I will look for evidence for the social dimension in a) the legal framework of the Lisbon Treaty, namely Title IX and X on employment and social policy respectively, b) the policy architecture of the Lisbon and the 2020 Strategies with their unique Open Method of Coordination, c) the existing legally binding regulation that set cross-national minimal standards, d) the autonomous agreements produced under the Social Dialogue, and e) the jurisprudence of the ECJ.

In his analysis, Polanyi (1944) demonstrated that the deliberate spreading of economic liberalism which improved the tools of production immediately necessitated the emergence of those measures that counter-balanced the negative consequences of such improvement. By looking at the emergence of the market society in nineteenth century England, Polanyi (1944) observed the urgency with which society aimed at protecting itself from the damaging effects of the competitive markets for land and labour. The enclosure movement, the Speenhamland Law, the abolishment of the Poor and Corn Laws are all part of the *improvement – habitation* dynamics, which presuppose each other.

A broad survey of the contemporary features of the EU will prove Polanyi's conclusions valid. We can identify numerous instances of social protection which arose as a response to the deliberate attempt on the part of the European Commission to put in place policies conducive to economic progress, i.e. *improvement*. The

creation of the Single Market in the EU was a product of a deliberate intervention that was becoming more and more contentious, as can be seen in the rejection of the course of the integration project by the referenda in France and the Netherlands. The following paragraphs will attempt to bring to light those instances that impair the functioning of the self-regulating market, without necessarily re-embedding the economy. The evidence suggests that the limited scaling of the EU social policy is predicated on a new market-friendly social paradigm. This paradigm redefines the essence of the *habitation* principle, which no longer stands as a balance to the principle of *improvement* but merely mimics it by commodifying social protection.

Although the EU is not a *Sozialstaat* reminiscent of the welfare states, there is also no race to the bottom (McCormick, 2007). The EU legislative activity in social policy is thought to be comparable to that of the federal government in the US on the eve of the New Deal in 1930s (Leibfried, 2010: 264). Whyman, Baimbridge and Mullen (2012) estimate approximately that there exist over 70 directives and other legislative measures concerning social policy. Taken together, the minimal binding legislative measures pertaining mainly to gender equality and safety at work, along with the collective agreements established through the Social Dialogue, and the non-binding instruments such as the OMC and the case law constitute the European Social Model (ESM). The EU can be argued to have a *sui generis* social policy that is market-friendly and focused on modernising and making the social benefits system sustainable (Daly, 2006).

The ESM is highly contested concept and many scholars identify a very limited influence of the EU within the social policy field (Clift, 2009b). Scholars argue that there is no convergence of social policy across Europe and if there are certain

commonalities they are not necessarily due to Europeanisation (Clift, 2009b; Wincott, 2003). It has been argued that the ESM represents a social regulatory framework rather than a comprehensive social redistributive system akin to the national welfare state models (Roche, 2010). Sabel and Zeitlin (2010) call the ESM a loose framework of social policy suited for preserving national differences, while Wincott (2003) acknowledging the overlapping between the functions of the state and the EU, emphasises that the ESM should be treated as a social regulation rather than a social policy. Jespen and Pascual (2006: 5) make the very pertinent observation that the ESM consists of ‘dissemination of cognitive frameworks to enable the construction of common formulae (intervention paradigms such as activation, gender mainstreaming) to solve the *problems* on the labour market that are institutionally constructed as shared’. Regardless of the fact that there is no convergence of a common model, the ESM is based on ‘a coherent vision of a social mode’ disseminated through the OMC, which Annesley (2007) christened the Adult Worker Model. The OMC is increasingly engulfing some policy issues that were previously exclusively national prerogatives such as education and social protection, and this induces Europeanisation through cognitive and normative means (Wincott, 2003: 283).

The EU project is simultaneously marked by both an intensification of the disembedding tendency - as evident from the recent deepening of the fiscal and economic union following the Great Recession - and an increased emphasis on the social dimension of the integration process. Regardless of the fact that the social dimension of EU integration has been lagging behind the economic, the Single European Act in 1986 with its Cockfield Report that envisaged 300 legislative proposals for completion of the Single Market (Oudenaren, 2007), inaugurated a change in the discourse regarding the social dimension of integration. The more

impetus was given to the economic integration, the bigger the need to address the social calamity. Although we had the Social Action Programs since 1975 and the Treaty of Rome contained a few social provisions, the most significant of which was Article 119 on equal pay, it was not until the late 1980s that more attention was paid to social protection (Burrows and Mair, 1996; Hix and Høyland, 2011). Most of the social legislation adopted in the early days of the EU was based on Article 100 of the Treaty of Rome giving the Commission power to promote legislation that directly affects the establishment of the Common Market, rather than on Article 118 pertaining to social policy (Johnson, 2005).

Despite the early insistence of the French that there be harmonisation of social regulation at the EU level, the approach adopted during the nascent years of the integration project was that of minimalising of the EU Social Law, whereby the Spaak report from 1956 insisted that the ‘equalisation of labour standards would be the *result* rather than the *condition precedent* of the operation of the common market’ (Ashiagbor, 2013: 307). During the first few decades the main legislative efforts in the social domain were concentrated in the field of gender rights (Burrows and Mair, 1996; Jespen and Pascual, 2006). The main achievements were the Directives on equal pay between men and women (75/117/EC), on the equal treatment regarding working conditions (76/207/EC) and on equal treatment in social security (79/7/EC). However, as the Single Market agenda was jumpstarted in the 1980s it became clear to EU policy makers, especially Delors, that the asymmetry between the social and the economic dimensions had to be addressed (Marlier, Atkinson, Cantillon and Nolan, 2007; Whyman, Baimbridge and Mullen, 2012). The Single Market Act in 1986 can be considered the junction where the discourse on social prosperity entered into the Single Market calculus.

As the Single Market Project started to deepen, the social dimension imposed itself as the problem that needed addressing. After almost three decades of a sole focus on *improvement, habitation* started to appear in the discourse. The Single European Act extended the qualified majority voting to certain areas of social policy such as working conditions and health and safety at work (Hix and Bjørn Høyland, 2011; Johnson, 2005). Following the chiefly declaratory Social Charter in 1986, the Social Protocol of the Maastricht Treaty a) added new social provisions pertaining to working conditions, and workers' health and safety, b) obliged the Commission to consult management and labour when proposing legislation, and c) institutionalised the Social Dialogue (Jespen and Pascual, 2006; Nowotny *et al.*, 2009; Philippa Watson, 2009).

The 1990s were marked by a number of Directives that set minimal standards concerning gender equality, part-time regulation, fix-term work, parental leave, consultation of labour, formation of European work council, workers' health and safety and transfers of social benefits (Phillippa Watson, 2009). Amidst the efforts to create an Economic and Monetary Union in the 1990s it became more pertinent to deal with the unemployment crisis, resulting in the introduction of the European Employment Strategy (EES) in 1997. In addition to the two existing policy areas of health and safety at work and gender equality that fell under the qualified majority vote, the Treaty of Amsterdam added workers' information and consultation and social inclusion to the QMV procedure and also added five more fields to the unanimity voting procedure: social security and worker protection, protection of workers when employment is terminated, collective interest representation, employment of third-country nationals, financing measures to include the excluded. At the same time, it explicitly excluded three areas from the reach of the Union: pay,

right of association and right to strike (Leibfried, 2010: 262). In 2001, the Treaty of Nice granted rights to the EU to take actions in tackling social exclusion, but did not delegate legislative competence to the Union in this area (Philippa Watson, 2009).

With the Lisbon Treaty, the idea of social cohesion and inclusion gained constitutional status and the new objective of the Union became the creation of the Social Market Economy. The TFEU turned social policy into a shared competence while the Charter on Fundamental Rights, which acknowledges the right to collective bargaining (Article 28), got legally binding status. However the Charter could not be used as a venue to enlarge the competence of the EU (Dony, 2009). Article 9 of the TFEU reiterated the need for factoring in social objectives into future policies:

In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.

5.1.1. The Social Dialogue

Parallel to the Community Method,⁵⁷ there is the Social Dialogue which aims to reach autonomous agreements among social partners such as the employers' representatives BusinessEurope⁵⁸ and the European Trade Union Confederation (Johnson, 2005). Since its inception the Social Dialogue has resulted in a number of framework agreements that have already been transformed into Directives on parental leave (96/34/EC), part-time work (97/81/EC) and fixed-time work (99/70/EC). In addition,

⁵⁷ It refers to the legislative procedure whereby the Commission initiates laws, and the Council together with the European Parliament decides either through the ordinary legislative procedure, ascent or consultation.

⁵⁸ In 2007 the employers association UNICE changed its name to BusinessEurope.

there are currently four agreements at the cross-industry level: on telework from 2002, stress at the workplace from 2004, harassment at work from 2007 and inclusive labour markets from 2010. Although these have not been incorporated into the legislation, they are still binding in nature. Complementary to the cross-industry level there are also 41 Sectoral Social Dialogue committees that produce joint opinions and agreements, and some of these have been transformed into EU level legislation such as the Directives on the prevention of sharp injuries in the healthcare sector (2010/32/EU), the ship-workers sector (2009/12/EC), the working time of seafarers (99/63/EC), the working conditions of railway workers (2005/47/EC) and the working time of civil aviation employees (2000/79/EC). The creation of the Tripartite Social Summit in 2003 by Council Decision (2003/174/CE) is in line with the dedication to fostering exchanges between the employers' and the labour representatives.

Historical predecessors of the Social Dialogue can be found in the sectoral joint committees from the 1960s which generated joint opinions rather than voluntary agreements. Despite the appearance of embryonic neo-corporatist industrial relations, the effectiveness of the Social Dialogue is disputed by many scholars (Degryse, 2006). Dufresne, Degryse and Pochet (2006 : 20) claim that 'what happens at European level is at best a distortion of proper collective bargaining (according to the German or Scandinavian model); at worst it constitutes a betrayal because it leads to different practices (conflict-free cooperation, partnership) and involves different players (Commission, NGOs, etc.)'. One of the most adamant critics, Horn (2012), qualifies the role of the Social Dialogue as merely symbolic because the organised position of labour in the EU has been under attack by the neoliberalisation of Europe, whereby there has been a decoupling of labour law and corporate regulation. Horn (2012) also argues that since the Green Paper in 1975 on Employee Participation and

Company Structure which focused on industrial democracy, much has changed in Europe thanks to the promotion of a shareholder model which has marketised corporate control and allowed capital markets to discipline labour. The best evidence for this trend can be found in the new Company Law Action Plan from 2003 which was devoid of workers' rights.⁵⁹ The relegation of labour legislation to the DG Employment and Social Affairs resulted in their acquiring a less distributive and more representative character (Horn, 2012).

5.1.2. The Open Method of Coordination

The 1990s and 2000s witnessed both an incremental widening of the social issues that are tackled by the EU and also a diversification of the legislative instruments (Goetschy, 2002; 2009). One such area that experienced a certain dose of Europeanisation was social inclusion, which following the first Council Resolution on Social Exclusion in 1989 then experienced a renaissance in the early 2000s when the Lisbon Agenda declared this as its objective (Marlier, Atkinson, Cantillon and Nolan, 2007). The launch of the Lisbon Strategy in 2000 institutionalised the Open Method of Coordination in social policy which entailed an exercise of coordination among member states as a way of allowing the EU to address issues previously considered falling within the exclusive remit of national politics (Telò, 2002). The OMC initiated a shift in the approach to social regulation from a full harmonisation to a convergence on common objectives. This was because, unlike the original six member states which shared similar characteristics between their corporatist insurance-based models, the new membership base brought more heterogeneity in terms of welfare state models (Hantrais, 2007). The OMC was hailed as the most promising method of governance, whose merits reside in its ability to resolve the

⁵⁹ See a more detailed discussion on corporate control in the previous empirical chapter.

asymmetry between social and macro-economic policies through unconventional methods, such as policy learning (Rodrigues, 2009). Telò (2003: 244) argues that the Lisbon Agenda ‘opened up a new track, which is likely to produce increased socio-economic integration’. Yet although the OMC epitomises a non-authoritative norm setting, we should not overlook the potential of this constructivist strategy *par excellence* in producing EU-wide results (Rodrigues, 2002). It is in the virtue of the OMC that makes the EU structure subject to potential social and environmental protection. Whether or not its tangible effects are visible at this moment is irrelevant, the operation of its constructivist communicative dynamic is still indisputable. The OMC is a typical example of a type of experimentalist governance demonstrating a shift from rules to frameworks of rules (Sabel and Zeitlin, 2010). Goetschy (2009: 76) has observed that the voluntary nature of the OMC has enabled the ‘enlargement of the agenda on ‘national priorities’ that can be dealt at the EU level without a formal shift in competences between the Union and the member states.

While some feared that the OMC would represent a return to pure intergovernmentalism, Telò (2002) has argued that, despite the increased country ownership of the policy process, the OMC entails a multipolar distribution of power. It engages states in transformative logic because it is predicated on multidimensional exchanges between the Council, the various advisory committees, the member states and civil society along with the Commission which continues to play a major role during the stages of consultation, monitoring and recommendation. The OMC method consists of a few phases: a) formulation of policy objectives by the Council, b) translation of those goals into national policies, c) formulation of EU level benchmarks against which performance is evaluated, d) regular monitoring and peer review of the National Reform Programs, and e) country-specific recommendations

and Annual Progress Report by the Commission (Telò, 2003; Tholoniati, 2010; Goetschy, 2002, Rodrigues, 2009; Daly, 2006).

While condemning both the supporters for their great expectations and also the opponents for their unconstructive criticism, the constructivists conceive of the OMC as a stepping stone towards more meaningful regulation (Tholoniati, 2010). The constructivist literature provides a convincing narrative of how discursive practices and the persuasive power of arguments shape the intersubjective understandings, which, in turn, affect the behaviour of actors (Hasenclever, Mayer and Rittberger, 2004; Checkel, 2001). The engagement in communicative action triggers the double loop learning⁶⁰, prompting actors to reconfigure their identity and interests by internalising the new norms that have been created through the process of evolving reinterpretation (Kratochwil and Ruggie, 1986). The learning that occurs through interaction, in turn, induces compliance with these new, discursively constructed norms. Wendt (1992) with his notion of self-stabilisation hypothesis of cooperation provides good illustration of how this process unfolds. Namely, even if member states started participating in the OMC with indifference, their interests might be redefined under the newly emerging normative environment. Such was the purpose of the introduction of the first set of indicators on social inclusion against which performance was measured during the 2001 Laeken Summit (Marlier, Atkinson, Cantillon and Nolan, 2007). The OMC entails the comparison of processes and outcomes and aims to establish a consensus on the best practice; and in doing so it focuses the member states' attention on performance (Lundvall and Tomlinson, 2002; Daly, 2006).

⁶⁰ Also known as complex learning whereby actors change their identities and preferences, as opposed to simple learning where they just change their means (strategies) due to changes in the information set.

There were two key forerunners of the OMC as a governance mode, namely the Broad Economic Policy Guidelines (BEPG) introduced with the Treaty of Maastricht (now Article 121 TFEU) and then the Luxembourg Process which entailed a closer coordination of economic and employment policies (Telò, 2002; Rodrigues, 2002; 2003; Song, 2011). Since the introduction of the Lisbon Agenda, the OMC has undergone several transformations. The OMC has become a meta-governance mode thanks to the incremental inclusion of new areas, such as social inclusion, environment, pension, care for the elderly, education and training (Marlier, Atkinson, Cantillon and Nolan, 2007; Tholoniati, 2010). It was further institutionalised via procedural changes such as the streamlining in 2003/04 and the combination of the BEPG and European Employment Strategy in 2005, when the National Action Programs were replaced with the National Reform Programs (Tholoniati, 2010).

The Lisbon Agenda with its OMC method is not without its shortcomings. Tholoniati (2010) has emphasised some aspects of the OMC that limit its effectiveness. Firstly, the absence of naming and shaming and presence exclusively of ‘carrots’ and no ‘sticks’. Secondly, the subordination of social priorities to the growth and jobs agenda following the critical Kok report, which identified an implementation failure and advised on trimming down the overloaded agenda and greater coordination between areas (Tholoniati, 2010; Song, 2011). Daly (2006) warned of a disappearance of the social OMC during the second phase of the Lisbon Agenda that started in 2005 following the Kok report which had prioritised the jobs and growth objective. In addition, member states are said to ‘turn the drafting of National Action Plans, in which they respond to the European guidelines, into a merely formal and bureaucratic exercise that consists of translating already existing practices into the ‘language’ proposed by the European institutions’ (Jespen and Pascual, 2006: 10).

The new 2020 strategy is another non-binding instrument that puts emphasis on smart, sustainable, and inclusive growth (COM/2010/2020). All of its five main objectives (employment, innovation, education, social inclusion, and climate/energy) are tied to quantitative targets that need to be translated into national ones and communicated in the form of National Reform Programmes for monitoring and peer review. The Commission has new tools - seven flagship initiatives – at its disposal to attain the goals of the 2020 agenda. The new 2020 strategy should not be judged merely on the actual results it produces, but also in relation to the idea it institutionalises, namely the concept of complementarity between competitiveness and inclusiveness. It will be explained below how this concept represents a fundamental shift from Polanyi's (1977) ideas about those measures that secure people's livelihoods.

In the aftermath of the recent economic crisis, the EU has further strengthened its surveillance mechanisms by launching the new European Semester which synchronised the Stability and Growth Convergence Programme (the preventive arm of the Stability and Growth Pact - SGP) for public finances with the National Reform Programmes (NRP) for structural reforms. This reformed cycle starts with the publication of an Annual Growth report by the Commission at the end of the year, followed by the spring summit of the Council and the submission of the SGP and the NPR in April, and these are then evaluated by the Commission, which provides country specific recommendations to be approved by the Council in June.⁶¹ While the dissuasive arm of the SGP allows for the issuing of policy warnings to member states, the same does not apply for the 2020 priorities.

⁶¹ The European Semester was explained by European Commission officials at the European Economic and Social Committee's conference on the 22nd of February 2011. In addition it was also presented at the Eurochild conference on the 24th of May 2011.

The content of the social norms promoted via the OMC, irrespective of the lack of uniform effects across the Union, advocate an active welfare state (Vandenbroucke and Vleminckx, 2011). The Lisbon Agenda inaugurated a shift from a market-correcting to a social investment approach (Annesley, 2007). The normative language which constitutes the Lisbon and the 2020 strategy is skewed towards “supply-side egalitarianism”, ‘competitive solidarity’, and ‘competitive corporatism’ (Clift, 2009b: 207). The quintessential instrument through which European policy makers have tried to pursue the transformation of the traditional welfare state into an active one is the flexicurity model, predicated on the belief in reconciling efficiency and equality. The flexicurity model for which there is a consensus among EU policy makers entails: a) flexible labour regulation to enable quick hiring and firing procedures, b) active labour market policies (ALMP) which strive to boost the employability of the post-industrial labour force, c) lifelong learning programmes which aim to up-skill the labour force to meet the needs of the market, and d) modern social security system (Bonoli and Emmenegger, 2010).

The flexicurity model, whose origins are in the Dutch power struggle between capital and labour, is promoted as the solution to the new risks associated with globalisation due to its capacity to transform the EU economy into a knowledge-based one (Klindt, 2011). The modernisation of the traditional social security models is purported to be working towards the accomplishment of the overriding objective of increasing the EU’s competitiveness (COM/2003/842). Rosamond (2002) reminds us that the discourse of globalisation is often revoked signifying an external compulsion which the Commission uses as a way of legitimising its role in policy-making where it lacks exclusive competences. In the Communication on Flexicurity, the Commission constructed a socio-economic space, whereby globalisation is projected as a force that

is 'beneficial for growth', yet requiring a 'restructuring' in the form of 'flexible labour market' and increased 'adaptability' of the labour force if the EU is to remain competitive (COM/2007/0359). The idea behind the modernisation of social policy is the paradigm that policy should pay, i.e. it should be economically advantageous (Vandenbroucke and Vleminckx, 2011). The discourse of the EU policy makers asserts that 'flexicurity requires a cost effective allocation of resources' (Council Conclusion 15497/07).

The drive behind the Lisbon Strategy was the perceived superiority of the American economic model along with the low unemployment figures which the European policy makers tried to emulate. Unfortunately, evidence suggests that the EU lacks the necessary labour market institutions and financial structure which sustain the American knowledge-based growth model, and moreover the American model is not without its shortcomings given that its success is accompanied by wage insecurity and stagnation and a dual labour market structure (Birch and Mykhnenko, 2014; Watson, 2001). Namely, the European economy is predicated neither on a) a flexible labour market policies allowing companies to adjust quickly to downturns nor b) an integrated venture capital market sustaining the type of firms associated with the knowledge-based economy (KBE) (Watson, 2001).

Irrespective of the difficulties in achieving total convergence across the Union, the new social investment paradigm has had visible material effects across the Union. Cantillon (2011) identifies a resource competition between the passive social protection and the activation policies. Despite the continuation of high social spending, Cantillon (2011) observes that the level of prioritisation of social protection started declining in the 1990s and continued to decline in the 2000s under the Lisbon

Agenda. This trend has been further reified with the commitment to austerity. The Council (Conclusion 15497/07) requires that flexicurity policies ‘should remain fully compatible with sound and financially sustainable public budgets’.

While its proponents claim that what matters is the consistency of the implementation of the policies, rather than the policy *per se* (Vandenbroucke and Vleminckx, 2011), there is nonetheless growing criticism of the promotion of the flexicurity model on the grounds that it requires a unique synergy between many institutions. Luigi and Keune (2011) warn of the difficulty of generating institutional complementarities in the other EU member states because institutions arise not by design but by strategic action and practice. Along with the criticism of the institutional misfit, some scholars bring evidence for the failure of the Lisbon Agenda to foster a transition to a knowledge-based economy (KBE). Birch and Mykhnenko (2014) claim that the actual Lisbon policies stimulated the financialisation of the European economy, whereby the innovation and the competitiveness crucial for the KBE which the policy was supposed to be fostering were conditional on the financial market integration and deregulation.

5.1.3. Case Law

In addition to the minimal binding regulation and the OMC, there is another venue through which social protection has been introduced in the EU, namely the ECJ jurisprudence. The ECJ has been praised by Tarrow and Caporaso (2009) as an agent which brought Polanyi to Brussels, and it did so by opening the national social security to migrant workers and extending social rights not only to the workers but to their families as well. In doing so, they argue the ECJ created “a structure of *supranational embedded liberal compromises*’ (Tarrow and Caporaso, 2009: 594).

However, the empirical evidence from the ECJ rulings suggest a rather mixed picture that is still tilted towards furthering negative as opposed to positive integration, because if there are cases that promote social rights they are usually addressing limited aspects of social policy, namely the free movement of labour and the exportability of social benefits.

Tarrow and Caporaso's (2009) thesis has been met with adamant criticism by Höpner and Schäfer (2010a) on the grounds that in their analysis they conflated the individual social rights with embeddedness. Instead of bringing Polanyi back to Brussels, they claim the ECJ has brought Hayek to Brussels. They base their contra-argument on an examination of the *Viking* (C-438/05), *Laval* (C-341/05), *Rüffert* (C-346-06), *Centros* (C-212/97), *Überseering* (C-208/00) and *Insire Act Ltd* (167/01) cases. They argue that the ECJ has gone beyond rulings which uphold the 'non-discrimination' principle and instead moved towards a 'non-restriction' principle, whereby institutional differences within the varieties of capitalism across Europe are interpreted as restricting the four freedoms. The ECJ jurisprudence has replaced the principle of 'place of management'⁶² with that of 'place of establishment' (2010a, 2010b). Following the anti-liberal discourse (see Crespy, 2010), the 'country of origin' principle was removed from the Service Directive, however the ECJ rulings have brought this principle into operation through the back door as exemplified by the *Laval* case (C-341/05). Höpner and Schäfer (2010a) claim that the European Court of Justice is no longer tackling national discrimination, but rather engaging in a reconstruction of the welfare systems with the aim of bringing them in line with the competition regulation. Their response is also in line with Scharpf's (2012) argument that the ECJ has been an agent of liberalisation. Lindstrom (2010), who examines in

⁶² The 'seat of management' stipulates that the company is subject to the rules of the land where it is domiciled not where it is established.

detail the *Laval* (C-341/05) and *Viking* (C-438/05) cases, reveals the tension between basic market freedom and the rights of unions to take collective actions, and points out that the ECJ favours the former.

Contrary to the rulings in the 1990s when the ECJ was exempting the rule of solidarity from the internal market law, nowadays the ECJ has changed its interpretation and considers market access and the competition rules to be above all other measures, even those which are not discriminatory (Ashiagbor, 2013). In the 1990s, the *Albany* case (C-67/96) placed collective agreements beyond the reach of the competition regulation (Article 101) and the ECJ then concluded that: 'It is beyond question that certain restrictions of competition are inherent in collective agreements between organisations representing employers and workers'. Similarly, the *Rush Portuguesa* case (C-113/89), insisted that member states cannot prevent the freedom of services, however it concluded that local regulation shall apply to the posted workers, i.e. host countries can choose to extend the collective agreements to temporary workers. This trend was reversed with the recent *Laval* (C-341/05) and *Viking* (C-438/05) rulings, when the ECJ ruled that industrial action can be considered a disproportionate infringement on the freedom of establishment (Article 49 TFEU) and the freedom to provide services (Article 56 TFEU). So, rather than strengthening the social citizenship norms in the Union, the ECJ is undermining the trade unions' position.

Finally, let us consider those cases for which Tarrow and Caporaso (2009) praised the ECJ as the emancipatory agent which extended the social citizenship norms to all EU citizens based on virtue of belonging to a supranational community, namely the Union. The ECJ jurisprudence on free movement has resulted in what Ferrera (2005)

calls a new special politics of social protection that has eroded a number of factors including: a) national control over the beneficiaries, b) spatial control over consumption (able to shop around), c) exclusivity of coverage within the national territory, d) control over the access to the status of benefit providers (states must open their market for the second pillar to other providers), and e) control over the administrative case adjudication (who is sick is determined by other jurisdiction). Such restructuring of the boundary of the national healthcare systems can ruin the norms of solidarity that sustain them. In addition, Ashiagbor (2013: 321) nicely explains that ‘increasing individuals’ cross-border access to national social security or healthcare systems is not the same as constructing institutions of social citizenship at the EU level’.

This section attempted to put forward the evidence of the increasing efforts at the EU level to deal with the social dislocations threatening the European labour force. At the ideational level we have the constitutionalisation of the idea of inclusive growth that opens a venue for the development of EU social policy, while at the legal framework we have minimal binding social regulation and autonomous agreements, and at the institutional level we have the Lisbon Agenda and the 2020 Strategy with its flagship initiatives. All of these collectively inaugurate the turning point when further liberalisation has to be accompanied with increased social protection. However, one should bear in mind that these measures do not dispute the existence of the asymmetric governance structure with the EU, whereby social policy still lacks the constitutional status of the monetary policy.

5.2. Environmental Policy

Having examined the state of the social policy at the EU level, the chapter now turns to the developments in the much more extensive environmental policy field. Despite its relatively recent emergence on the EU stage, environmental policy is marked by notable accomplishments. Similar to the social policy, environmental provisions did not previously come high on the initial integration agenda. Environment was not covered as a policy field in the Treaty of Rome, and this makes its emergence as a full-fledged European policy field even more remarkable (Hix and Høyland, 2011; McCormick, 2001). Nowadays it is believed that the EU has a more comprehensive environmental portfolio than the federal US government (Vogel *et al.*, 2012). Although the *spill-over* effect is credited for the incremental scaling-up of many policy fields at the EU level, the environmental policy is unique in its rapid transformation from a non-EU policy field to an extensive regulatory field which is driving an upward convergence of standards even among the laggard countries of Eastern and Southern Europe. Contrary to expectations, the environmental regulation has not led to a downward convergence around the lowest common denominator among 28 member states characterised with different levels of economic development.

Unlike the binding regulation within the social policy field, the environmental protection is predicated on more than 500 legislative acts, 300 of which are Directives (Oberthür and Pallemerts, 2010; Jordan, 2005). McCormick (2001) estimates these figures to be a little higher and claims that by the end of 1999, the EU had adopted over 845 pieces of environmental legislation. A refined search in the EUR-LEX directory of EU legislation under the classification of environment, consumer and health protection shows the following data:

Figure 4 Environmental Regulation Statistics

	Regulations	Directives
General Environmental Provisions	46	16
Pollution (air, water, noise, chemical, nuclear)	163	296
Wild-life, biodiversity and natural resources	155	65
Total	364	377

Source: Author's Own Generations

The Treaty of Rome did not foresee any special legal basis for Community-wide action in the environmental field, however it contained two indirect routes through which environmental legislation could be pursued. First, Article 100 allowed for the product harmonisation that prevents non-tariff barriers; second Article 2 stipulated that the Community could take actions to raise the standards of living (Marin, 2004; McCormick, 2001; Grant, Matthews and Newell, 2000). The first crystallisation of the policy attention to environmental concerns happened in 1972 in Paris with the inauguration of the First Environmental Action Program (EAP) (McCormick, 2001). The effects of the EAP were merely symbolic and it was not until the SEA in 1986 when the environment started to emerge as a European policy field (Oberthür and Pallemerts, 2010).

5.2.1. Actors

The policy formation process involves a wide array of actors: the Council sets the objectives, the Commission prepares background papers, provides consultation and generates legislative drafts, then the national bureaucracies via COREPER provide

input into the policy drafts, the Council of Ministers and the Parliament decide what will become law under the ordinary legislative procedure, and finally the ECJ ensures the constitutionality of the regulation. DG Environment is considered to have close links to industry rather than the green NGOs (McCormick, 2001). Although there is a variety of actors that set the agenda, including many external actors that make up for the lack of expertise of the Commission, nonetheless Germany, Netherlands and Denmark have been singled out as the states that pushed the agenda forward and started the race to the top (Grant, Matthews and Newell, 2000). The incremental enhancement of Parliamentary powers from cooperation to decision, termed an ordinary legislative procedure since the Lisbon Treaty, has acted as a positive factor in greening of the EU policy output (McCormick, 2001). In addition to the public authorities, the business and the environmental NGOs are yet another set of external agents that influence policy-making. The former wield significantly more power than the latter, which depend on funding from the DG Environment itself (Grant, Matthews and Newell, 2000).

The EU has been an active player on the international climate change stage (Kelemen, 2010). Although the Treaty of Rome did not predict an international presence in any area except commerce, the ECJ's ruling in the *22/70 Commission vs. Council* case recognised that once a competence is established internally, the EU can act externally, without clarifying whether it would be represented by the Presidency or the Commission. Article 130r (5) of the SEA provided a legal basis for the shared competence between the Community and the member states regarding cooperation with third countries and international organisations (Sbragia, 2005).

From the 1970s until present there have been a total of seven Environmental Action Programmes in the EU. The environmental policy field is characterised by stringent and centralised regulation. This is in a stark contrast to the US. Compared to the US where the federal government does not regulate packaging of waste, has two-tier fuel emissions standards, has not signed the Kyoto Protocol and lacks federal restrictions on greenhouse gases (GHG), the EU has a centralised floor on packaging waste, centralised fuel emissions standards since 1987, EU-wide restrictions on GHG emissions through the Emission Trading Scheme and the Effort-Sharing Directive (Vogel, *et al.*, 2012). The reason why the EU has opted for a centralised and more stringent environmental regulation can be found in the nature of the Common Market, which could easily be distorted if all member states had divergent policy measures. The EU often opts out of minimal and maximum ceiling on standards in order to prevent non-tariff distortions to the Single Market.

The *Danish beer bottle case* (302/86) demonstrates the tension between nation-level environmental restrictions and the Common Market freedoms. Namely, the Commission brought Denmark to court for its trade-distorting policy on bottle recycling which was in breach of Article 28 of ECC Treaty. Regardless of the actual decision which found the Danish regulation to be disproportionate, the ECJ asserted that environmental concerns constitute a legitimate objective for restricting the market freedom within the Union (Vogel *et al.*, 2012; Grant, Matthews and Newell, 2000). On the insistence of member states which are champions in environmental provisions, such as Denmark and Germany, the Maastricht Treaty contained a provision stipulating that the Union law shall not restrict member states from adopting more stringent rules (Article 130t). Regardless of the allowed parallel existence of EU-wide minimum standards and more stringent national ones, the harmonisation of

environmental standards has been pursued for the sake of warding off distortions of the Single Market. A convenient solution was found in the partially renationalised environmental policy in the early 1990s. Framework directives and voluntary agreements, such as the agreement between the Commission and the vehicle manufacturers, rolled back the strong enthusiasm of the late 1980s (Hey, 2005; Jordan *et al.*, 2010). This trend shifted again in the 2000s when more decisions were centralised at the EU level (Jordan, Huitema and van Asselt, 2010).

Setting aside the debate about the internal dynamic within the European Court of Justice, which might reflect the preferences of the dominant member states as argued by the intergovernmentalists or might be guided solely by independent reasoning as argued by the neo-functionalists (Cichowski, 1998), the ECJ has played an active role in the environmental policy integration. Article 177 of the Treaty of Rome, which gave jurisdiction to the ECJ to issue preliminary rulings,⁶³ enabled the ECJ to constitutionalise the EU law. The ECJ's activist disposition stems from its position to decide between the competing policies' priorities on a case by case basis. Basic search in the CURIA database shows a total of 763 cases concerning the environment between 1993 and 2013. By analysing thirty-six environmental case judgments between 1976 and 1996, Cichowski (1998) concluded that the ECJ has targeted the national regulatory framework in that in 69% of the cases it declared national law to be inconsistent with EU law. In addition, in 66% of the cases that require balancing

⁶³ The preliminary rulings pertaining to: a) the interpretation of this Treaty, b) the validity and interpretation of acts of the institutions of the Community, c) the interpretation of the statutes of bodies established by an act of the Council, where those statutes so provide (Article 177).

between environmental and free-trade considerations the ECJ ruled pro-free-trade (Cichowski, 1998).⁶⁴

5.2.2. Stages

Judging from the amount of legislative instruments, the environment is the fastest growing EU field (Jordan, 2005). Over the decades, the environmental agenda has incrementally increased from the first generation of regulation on automobile in the 1960s and 1970s, to the focus on waste packaging in the 1980s, and the newest turn towards climate change is the 1990s (Vogel *et al.*, 2012). For analytical purposes we can roughly discern four phases of the EU environmental policy:

a) The first stage lasted from the Treaty of Rome until the Stockholm Conference on Human Environment and the creation of the Environmental Committee in 1972 by the European Parliament. This phase consisted of pragmatic measures such as the Directive 67/548/EEC on packaging of dangerous substances, Directive 70/157/EEC on sound level and the exhaust systems of vehicles, Directive 70/220/EEC on vehicle emissions, Regulation 729/70/EEC on countryside protection, Directive 72/306/EEC on vehicle emissions by diesel engines (Hildebrand, 2005; Jordan, 2005).

b) The second stage lasted from the first European Environmental Action Programme in 1973 until the Single European Act and was marked by increased public awareness and setting up of responsible ministries and agencies among the EU member states and within the EU institutional structure. Hey (2005) calls this phase the idealistic start of environmental awareness during which the European Environmental Bureau was created in 1974 (McCormick, 2001). The DG XI dedicated to environment was

⁶⁴ Another interesting finding is the fact that the Commission 's observations, which are issued prior to the judgment and state its opinion about the case, were 97% correct in predicting the ECJ judgment, which, in turn, demonstrates the existence of strong alignment between the ECJ and the Commission.

created in 1981, while prior to this date DG Industry was in charge of environmental issues (Zito, 2005). During this period the EU adopted over 40 Directives, 8 Decisions and 10 Regulations (Hildebrand, 2005). Most notable of these are: Directive 74/439/EEC on the disposal of waste oils (amended by Directive 87/1010/EEC), Directive 80/779/EEC on atmospheric pollution (amended by Directive 89/427/EEC), Directive 76/464/EEC on fresh-water and marine pollution, Directive 78/176/EEC on titanium dioxide industrial waste, Directive 79/831/EEC on packaging of dangerous substances, Directive 78/319/EEC on waste management, Directive 75/442/ECC on waste (amended by Directive 91/156.ECC), Directive 80/778/EEC on drinking water, Directive 76/160/EEC on bathing water, Directive 76/464/EEC on dangerous substances in water, Directive 80/770/EEC on smoke and sulphur dioxide, Directive 82/884/EEC on lead, Directive 85/203/EEC on nitrogen dioxide, Directive 84/631/EEC on toxic waste and shipment of waste, Directive 83/351/EEC on vehicle emissions, Directive 84/360/EEC on emissions from industrial plants, Directive 78/611/EEC and 85/210/EEC on lead content in petrol and Directive 79/117/EEC on pesticides.

During this stage, the main environmental challenges were portrayed as ‘an atmospheric environmental problem, not an energy security one’ (Jordan *et al.*, 2010: 53). At the international level, the US was more active and in 1988 it called for establishment of International Panel on Climate Change. The adoption of the Montreal Protocol on the ozone layer in 1987 was a major international step that further prompted the agenda. It was only in the early 1990s that the EU took on a leadership role at the international level (Jordan *et al.*, 2010).

c) The third stage lasted from the Single European Act (SEA) until the Maastricht Treaty when the legal competence for environmental action was established. The European Environmental Agency was created in 1990 and by 1992 the EU has passed a total of 200 legislative acts and the labour force of the DG XI had increased from mere 60 full-time employees to 450 (Weale, 2005). The SEA provided the necessary treaty base for environmental legislation, which had initially been introduced to prevent distortions of the Common Market (Vogel *et al.*, 2012; McCormick, 2001). Article 130r (2) of the SEA, which added a Title on the environment, attempted to streamline environmental concerns into other policies by requiring that the 'environmental protection requirements shall be a component of the Community's other policies'. The Maastricht Treaty contained two essential turning points: a) the integration of environmental sustainability in the rest of the Union's objectives, and b) replacing unanimity with the qualified majority voting (QMV) in the fields of air and noise pollution, waste disposal, water pollution, chemical products, nature and biodiversity, environmental impact assessment, eco-labelling (Hix and Høyland, 2011). Article 192 of The Lisbon Treaty (TFEU) predicted the ordinary legislative procedure for environment, although unanimity is still required by the Council for environmental provisions of a fiscal nature.

d) The fourth stage inaugurated a new environmental paradigm with the White Paper on Growth, Competitiveness and Employment in 1993, meaning that environmental projects were tied to the goal of increasing Europe's competitiveness (Weale, 2005; Hey, 2005). The White Paper introduced the idea of making the growth agenda of the EU environmentally sustainable. The 1990s marked a shift from the previous command-and-control regulation towards market-based instruments and market-friendly regulation (Collier, 1998; Hey, 2005). The 5th Environmental Action

Programme introduced new instruments that were predicated on a greater dose of flexibility such as: green taxes, tradable emissions, voluntary agreements, eco-labels, eco-audits (Grant, Matthews and Newell, 2000). While the EU had previously resisted market-based instruments (MBI) with its Emission Trading Scheme it fully embraced the cost-effective potential of such measures (Spash, 2010). During my interviews with representatives of DG Clima, it appeared that they are considering expanding the MBI as an efficient tool for dealing with the environmental dislocations.

The famous Molitor Report (COM/95/288) on Legislative and Administrative Simplification called for new regulatory framework that ‘meets the challenges of employment growth and competitiveness’. It judged that the ‘early regulatory approach [which consisted of vertical Directives targeting the source of pollution] tended to be too prescriptive and too rigid’. Hence it endeavoured to promote a new approach that will set (COM/95/288: 52):

clear objectives whilst leaving Member States and/or business to decide how best to achieve them. It embodies three main principles: reliance, when possible, on market based mechanisms rather than command and control regulation; a move away from highly prescriptive rules towards greater flexibility for Member States and/or businesses to decide on implementation that would meet clearly defined objectives; a move towards environmental quality standards and general permitting requirements.

Oberthür and Pallemerts (2010) identify the 1990s as the important agenda-setting decade when climate change made its way onto the policy tables. The famous Earth Summit in 1999 held in Rio de Janeiro was a very potent symbolic international effort

aimed at reducing greenhouse gas (GHG) emissions despite the lack of binding targets (Jordan *et al.*, 2010). The Kyoto Protocol that followed out of the United Nations Framework Convention on Climate Change introduced legally binding obligations for developed countries which predicted a reduction of GHG by 5% against the 1990 levels between 2008 and 2012. With the Doha Amendments in 2012, this commitment was renewed and strengthened in that the second period starting from 2013 until 2020 required a reduction by at least 18% below 1990 levels. However the amendments have not yet come into force. The EU ratified the Kyoto Protocol in 2002 and committed to a reduction of 8% (Decision 2002/358/EC). A Burden Sharing methodology was adopted at the EU level, whereby each member state was designated a binding emission reduction target depending on its relative wealth, but which cumulatively accounts for 8% reduction across the EU (Decision 2002/358/EC).

Figure 5 Burden Sharing Targets for the 2008-2012 Period

Austria	-13%
Belgium	-7.5%
Denmark	-21%
Finland	0%
France	0%
Germany	-21%
Greece	+25%
Ireland	+13%

Italy	-6.5%
Luxembourg	-28%
Netherlands	-6%
Portugal	+27%
Spain	+15%
Sweden	+4%
United Kingdom	-12.5%

Source: DG Environment

The second commitment period under the Kyoto Protocol was translated into a new Effort-Sharing Agreement among member states, addressing emission reduction from sectors not covered under the Emission Trading Scheme (ETS), such as transport (except aviation), buildings, waste, and agriculture (Decision 406/2009/EC). Like its predecessor the new Effort-Sharing agreement sets individually-tailored, binding GHG reduction targets that cumulatively result in a 10% decrease of GHG across the EU by taking 2005 as the base year. The switch in terminology from sharing the burden to sharing the effort is one example of how the ‘climate change storyline has evolved from one where action on climate change is considered only a costly “burden”, to one where it is considered an opportunity – for jobs, for innovation’ (Oberthür and Pallemerts, 2010: 103).

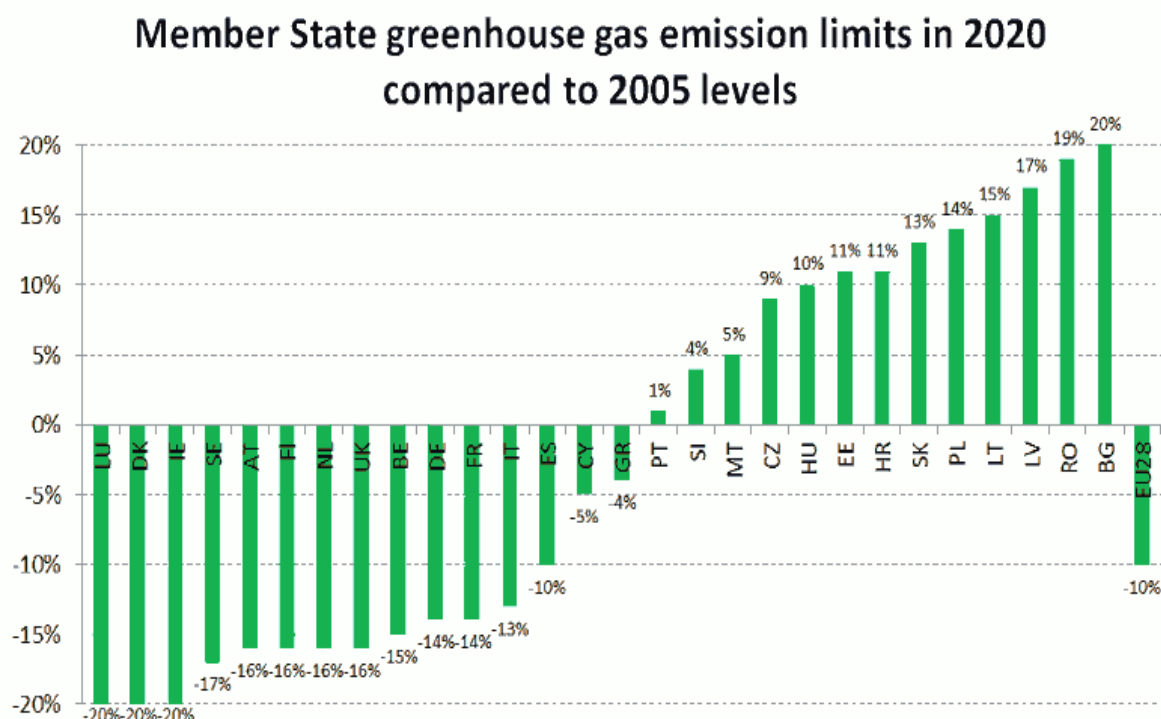
The above commitments are part of the 20-20-20 climate package adopted in 2007 which also became an integral part of the new Europe 2020 Strategy, a successor to the Lisbon Agenda, which integrated an environmental strategy at the Gothenburg

Summit in 2001. Just like its predecessor, the Lisbon Agenda, which had strived to transform Europe into a knowledge-based economy, the 2020 Strategy endeavours to achieve a low-carbon economy by providing: 20% GHG reduction, 20% energy consumption from renewables and 20% increase in energy efficiency. The 2020 climate change and energy package consisted of four legislative pieces: the reform of the Emission Trading Scheme, the Effort-Sharing Decision (406/2009/EC) for sectors not covered under the ETS, the Renewable Energy Directive (2009/28/EC, and a proposal for a new Directive COM/2012/595) and the Carbon Capture and Storage Directive (2009/31/EC).

The EU adopted numerous legislative instruments that demonstrate its commitment to accomplishing the set targets: Integrated Pollution Prevention and Control Directive (2008/1/EC) that was replaced by the Industrial Emissions Directive (2010/75/EU) in 2013;⁶⁵ Directive 2005/32/EC on eco design requirements products which use energy; Directive 2006/32/EC on national programmes for energy end-use efficiency; Directive 2002/91/EC on energy performance of buildings; Directive 2003/30/EC on biofuels; Directive 2004/8/EC on the promotion of combined heat and power production; Regulation EC/842/2006 and Directive (2006/40/EC) on reducing the mission of fluorinated GHGs; and Directive 2001/77/EC on renewable electricity.

⁶⁵ The new Industrial Emissions Directive goes a step further than the previous Integrated Pollution Prevention and Control Directive in that it decreases the flexibility on the usage of Best Available Technique. Unlike the previous IPPC Directive, the wording of the Directive is such that it prevents the frequent resort to the exemption from the BAT.

Figure 6 Member State Greenhouse Gas Emission Limits in 2020



Source: DG Environment

Given the significant expansion of the environmental portfolio, European bureaucracy was reinforced with the establishment of DG Clima in 2010, the body in charge of climate change policy.⁶⁶ The new Directorate General was established to help with the workload of DG Environment and is empowered to lead international negotiations in the climate change domain. Its main task is to implement the Emission Trading Scheme (ETS) and the Effort Sharing Directive targeting industries outside the ETS. The ETS, which is the archetypical market-based instrument, is one of the biggest achievements of climate change policy in the EU (Directive 2003/87/EC). Directive 2004/101/EC linked the ETS with the existing Kyoto Clean Development Mechanism (CDM) and the Joint Implementation (JI) instruments. Whereas the Effort-Sharing Agreement endeavours to reduce GHG by 10%, the ETS doubles that target to 21%.

⁶⁶ The Directorate General for Climate Action is one of the newest administrative body.

The gist of the ETS policy is the cap and trade approach, whereby public authorities set a cap on emissions and allocate allowances to industrial installations, which can later trade carbon permits on organised exchanges such as the European Energy Exchange, the Nord Pool etc. (MacKenzie, 2007). The initial ETS period from 2005 until 2007 covered only carbon dioxide emissions and it was a decentralised system that allocated allowances free of charge and had a narrower scope. Following the failings of the initial phase, the ETS was revised and it is now operated centrally rather than by member states (Directive 2009/29/EC). The new ETS introduced an EU-wide cap and auctioned 40% of the allowances. The scope was enlarged to include nitrous oxide and perfluorocarbons and even aviation was included within the industries regulated by the ETS. However, following international outcry, the Commission exempted international flights from the scheme.

The inventor of the cap and trade market was economist J.H. Dales (MacKenzie, 2007). The market-based climate change instruments have their origins in the US, the first country to implement the acid rain program, i.e. the sulphur dioxide trading (MacKenzie, 2007). The EU was not always open to the idea of emissions trading. It was on the insistence of the US that the CDM and the JI were introduced in the Kyoto Protocol (van Asselt, 2010). However, the Commission has latterly become enthusiastic about these cost-effective solutions in the 1990s following a shift in its environmental paradigm that redefined the core objective of climate change policy. The first contemplations of such measures can be found in the Green Paper on Emission Trading in 2000 (COM/2000)/87) and the proposal for Directive in 2001 (COM/2001/581).

The achievement in the environmental portfolio is not without criticism. One of the biggest weaknesses of the recent surge in environmental legislation is the lack of any uniform application across the Union. Newell and Paterson (1998:72) single out the implementation as the weakest link in the policy and claim that belated implementation is in fact the norm rather than the exception. Directives are the frequent legislative acts in the environmental portfolio and unlike Regulations that are directly applicable, Directives require transposition. Moreover because of the nature of the Directives, which only delimit objectives and not the means of achieving them, the member states have greater discretion than would be preferable. Yet, despite its shortcomings the environmental portfolio has expanded exponentially from its non-existent role in the Rome Treaty.

The above exercise of mapping the historical development of the environmental policy at the EU level clearly demonstrates the most notable achievements (McCormick, 2001; Oberthür and Pallemerts, 2010). Compared to the social policy domain where EU-wide actions are in their embryonic phase and generally of symbolic importance, the Europeanisation of the environmental policy is impressive beyond doubt. At the Durban climate change conference in 2011 the EU has taken the international initiative of negotiating a new international agreement that is supposed to be adopted in 2015 at the Paris climate change conference that will include binding targets. Under its energy policy framework for 2030, the Commission has put forward the proposal of reduction target of 40% by 2030 against 1990 levels (COM/2013/167). Its most ambitious project is the Roadmap for Competitive Low-Carbon Economy whose long-term objective is to reduce emissions to 80% of the 1990 levels by 2050 (COM/2011/0012).

One wonders if the environmental and social policies cumulatively give rise to a new double-movement that has the potential of disrupting the continued neoliberalisation of the EU as documented in the chapter on the disembedding tendency. After a period of intense disembedding, the EU has started to emphasise the importance of an inclusive and environmentally sustainable social market economy under the Lisbon Agenda and the new 2020 Strategy. Limited social and environmental protection has started to crystallise at the EU policy level, raising the question of whether we should interpret this as a sign of re-embeddedness in a Polanyian sense of the word.

How can we unlock the complexity of the growing socio-environmental protection in Europe in a Polanyian fashion? Can the proposed legislative measures under the 2020 Strategy make the EU environmentally sustainable and socially inclusive as argued by the Commission? Do they purport to embed the market? While some scholars like Caporaso and Tarrow (2009), Copeland (2009) and Vandenbroucke and Vleminckx (2011) have hastily concluded that the new measures represents a new form of embeddedness that is business-driven as opposed to the old politically-driven model evident in the welfare state, the following section would like to scrutinise that assertion in some depth. If the previous section represents an exercise in identifying the social and environmental policy domains, this section proceeds with a closer examination of their nature, their potential consequence, and also their novelty. It attempts to understand whether the policy output in the two domains is a mere instance of protection or whether this represents a true shift towards re-embeddedness. It also tries to examine the sustainability of the simultaneous intensification of both the liberalising and the protective tendencies and whether the dialectic between the two engenders a new double-movement.

While acknowledging the tremendous progress made by each policy field, this thesis takes a rather critical view of the nature of the policy instruments employed in each field. Namely, the thesis tries to question the functional superiority and the ethical underpinnings of the EU social and environmental policies that use market solutions and spread the commodity form. Regardless of their disparities, both policy fields are marked by similar trends of market-friendly regulation, whereby social and environmental protection are seen as part of the production process and as such are purported to be essential for the ‘jobs and growth’ agenda of the EU. Protection takes place against the backdrop of a discredited state within the New Public Management Agenda, and thus the proposed protection is increasingly predicated on a pro-market vocabulary.

5.3. The Interplay

The social and environmental provisions collectively inaugurate a turning point when further neoliberalisation has to be accompanied by increased social and environmental protection, thereby mitigating the dislocations engendered by marketisation. Although these measures aim to restore man’s *habitation*, they do not inaugurate a turn towards re-embeddedness as some scholars argue, because they themselves extend the commodity form. The following sections of this chapter try to make sense of the dialectical interaction between the two principles of *improvement* and *habitation*, i.e. between economic liberalisation and socio-environmental protection.⁶⁷ With this work, I would be happy to contribute, however modestly, to a Polanyian deconstruction of the disruptive dialectics between the disembedding and embedding tendencies.

⁶⁷ As already mentioned, the principle of *habitation* refers roughly to those measures aimed at securing the human livelihood and the principle of *improvement* stands for the economic liberalising reforms.

5.3.1. Social Protection versus Re-embeddedness

In the literature we lack a consensus regarding the issue of the exact beginning of the embedded liberal bargain. Colin Hay and Daniel Wincott (2012: 12), building on Blyth's (2002) work, claim that the 'golden age of the welfare state thesis' is not substantiated and it 'is a somewhat general, abstract, stylised and comfortable narrative'. Contrary to conventional convictions they assert that it was during the 1930s and 1940s, thanks to the political dominance of social democrats across Europe, that the pre-existing efforts of social reforms were consolidated. In their opinion, while the immediate post-war period in the 1950s was characterised with stagnation, the 1960s and 1970s marked a rapid expansion of welfare expenditure and inclusion of wider social policy issues (Hay and Wincott, 2012). Notwithstanding the unresolved question of whether 1945 was a turning point in the development of the welfare state or whether the institutional change started in the 1930s, this thesis identifies yet another problem with the conventional narrative that portrays the post-war surge of social protection as embedded liberalism. Namely, this thesis, building on the arguments by Lacher (1999), Dale (2010) and Panitch (2014), doubts whether the welfare state as such can be considered to constitute an embedded institutional system as understood by Polanyi. Whereas scholars like Ruggie (1992) and Esping-Andersen (1990) use Polanyian frame of reference and deem the post-war welfare state to be embedded liberalism, Dale (2010: 204) notes that Polanyi did not equate embeddedness with the partial decommodification exemplified in the post-war protective measures aimed at securing men's *habitation*.

Lacher (1999; 2007) and Burawoy (2003; 2010) caution against the practice of conflating social policy with embeddedness. Lacher (1999) has advocated a re-reading of Polanyi whereby embeddedness implies the full scale decommodification

of land, labour and money. The present thesis accepts Lacher's (1999: 315) conclusion that 'the re-embedding of the economy can only be achieved through a complete subjugation of the market; anything less only gives rise to economic crisis. It is only a re-embedding through the *de-commodification of land, labour and money* that can reassert societal control over the market; protectionism cannot achieve this purpose'. It follows that the existing protection provided in the social and environmental domains neither negates the primacy of the gain motive nor brings about de-proletarianisation, but rather it merely impairs the full functioning of the self-regulating market.

With the above considerations in mind, this thesis claims that the existing surge of socio-environmental protection at EU level does not re-embed the economy because production continues to be centred around buying and selling and not for its use value. Thus, even the critical scholarship, represented by van Apeldoorn, Drahokoupil and Horn (2008) and Overbeek and van Apeldoorn (2012), which acknowledges the existence of a limited protective dynamic, commits a conceptual mistake when it interprets the socio-environmental measures as a sign of embedded neoliberalism. The socio-environmental considerations do not obscure the profit motive. On the contrary, they are promoted as long as they do not jeopardise the competitiveness of the economy. As will be explained below, the socio-environmental provisions do not oppose the existing neoliberal accumulation regime, but instead they strengthen its hegemonic position by making it more inclusive and sustainable (Jessop, 2003).

5.3.2. Commodification of Social Policies

If it is conceptually unjustifiable to interpret the post-war welfare regime as being embedded then it is even harder to regard the social policy engendered by the

neoliberal socio-economic restructuring to be an indicator of re-embeddedness. Following the crisis of Keynesianism and the onset of monetary orthodoxy, social policy was required to accommodate the needs of the fiscal consolidation. The achievements of the social democracy in making certain public good provisions acceptable norm, has been under threat in the decades following the rise of the monetary orthodoxy that led to two major outcomes: a) a partial roll back of the Keynesian monetary interventionism, and b) reconstruction of Third Way policies that did not dismantle the social democracy altogether, but tried to redefine it by introducing a new market paradigm (Brenner, Peck and Theodore, 2010; Peck and Tickell, 2002). At the EU level, the Lisbon Agenda inaugurated such new social paradigm, one which 'broadened the notion of social policy as a productive factor beyond its traditional emphasis on social protection, extending it to social promotion by improving quality of training and education' (Vandenbroucke, Hemerijck and Palier, 2011: 6).

In order to avoid downplaying the transformative power of the new arrangement by using outdated evaluative criteria, we have to analyse the novelty of the protection evident in the new social measures. Compared to the old social provisions which relied on intervention by the public authorities, the new protection uses market solutions (Hemerijck, 2012). Unlike the social provisions which were ensured through the post-war welfare regimes, the new provisions do not insulate people from the vicissitudes of the market, but rather depend on the market for their realisation. This, in turn, represents a radical novelty at the core of the principle of *habitation*, which is becoming reliant on a deepened commodification. Contrary to the post-war welfare state which administered protection outside the confines of the market, the new social policy regime is increasingly dependent on the market for its realisation. Namely, the

new social paradigm advocated by the Commission is predicated on the idea that social policy represents an investment with market returns, i.e. it is denominated in monetary terms (Vandenbroucke, Hemerijck and Palier, 2011). According to the historical institutionalism literature on critical junctures, a paradigm shift, i.e. third-order change, occurs when we have change in the underlying goals that guide policies (Schmidt, 2008). And this is exactly what is happening with social policy, whereby the very essence of social policy is redefined to serve economic growth purpose, rather than solely providing social protection from the market forces.

If we look at the Lisbon Agenda and its successor, the 2020 Strategy, we see a turn towards an active welfare state regime centred on active labour market policies, flexible labour laws, active aging, up-skilling of the labour force and commitment to lifelong learning. Social investment is justified by the fact that the knowledge-based economy with its growth and jobs imperative requires investment in a skilled workforce (COM/2010/2020). The objective of the new policy is to enable to workforce to adjust to the needs of the globalised economy (Annesley, 2007). The modernisation of the European social models entails the expansion of the logic of the market, whereby the social policies are considered to be ‘not simply an outcome of good economic performance and policies but are at the same time an input’ (COM/2001/0313). Contrary to the conventional social protection measures, the new social investment policy is concerned with increasing human capital by up-skilling the workforce, providing incentives to work, and promoting longer working lives, thereby enabling capital to exploit the marginal productivity of older workers. They inaugurate the turning point from welfare to a competition state (Young, 2000).

Unlike the post-war welfare model which provided social provisions in the form of direct transfers and services, nowadays we are witnessing a turn towards social protection as an investment (Vandenbroucke, Hemerijck and Palier, 2011). If welfare protection previously entailed passive support through redistribution, the new policies evident in the new Social Investment Pact (COM/2013/83) ensure inclusion through active labour market policies. Social inclusion, which refers to the ability to participate in the market, is reduced to labour market inclusion, and as such it can be achieved by equipping people with the right skills, i.e. increasing their employability. Rather than focusing on eradicating growing inequality, the new paradigm shifts the focus onto social inclusion by creating equal opportunities (Lister, 2001). The new social provisions require the constitution of subjectivities in the image of the market by aiming to increase the productive potential of the labour force rather than securing any other human needs. The market is projected as the most natural and efficient way of delivering social wellbeing for the workforce. Social policy is merely there to aid the construction of the entrepreneurial disposition of the new neoliberal subjects.

Commissioner László Andor (Speech/2012/173) claims that the 'inclusiveness of labour markets and societies is key for the growth potential...social investment is also crucial from a more narrowly fiscal point of view'. Because social policies need to be fiscally sustainable, the new social investment paradigm strives 'to 'prepare' people to confront life's risks, rather than simply 'repairing' the consequences' (COM/2013/83: 3). The new policy promotes the implementation of market-based instruments such as the promotion of the Social Impact Bonds that are directed at private investors and the Social Entrepreneurs who are identified as important private sector partners in fighting poverty and exclusion. The Commission emphasises that the 'establishment of new small businesses is key for achieving the employment and inclusion targets of

the Europe 2020 Strategy (COM/2013/83:5). The marketisation argument continues (COM/2013/83: 5):

Resources for social policies are not limited to those from the public sector. A non-negligible part comes from people and families. In addition, non-profit organisations provide social services on a substantial scale. These range from homeless shelters, support for the elderly, people with disabilities, to advice centres on social benefits in general. Social enterprises can complement public sector efforts, and be pioneers in developing new markets, but they need more support than they are receiving now. The for-profit parts of the private sector would need to be further encouraged to use the potential of social investment through, for instance, a healthy and secure social and working environment. This is not limited to Corporate Social Responsibility.

This thesis wants to problematise the fact that what is proposed as a solution - more market-based instruments - under the new socio-environmental paradigm originates from the epistemological position that generates the problem of fiscal constraints in the first place. By turning the prevention of exclusion into an input in the production process and by justifying social protection in monetary terms, the social protection is itself being commodified, i.e. pursued for its economic returns. Polanyi's (1944) concept of fictitious commodities proves pertinent here. He identified land, labour and money as fictitious commodities because their production is not organised for sale (Vail, 2010). Land is another word for nature, labour is just one aspect of human nature, and money is not a commodity, or means of exchange, but rather purchasing power whose existence depends on central banking. Any attempt to create a free market for these fictitious commodities tends to produce dislocations (Polanyi, 1944:

187). In a similar way by turning social protection into a fictitious commodity, we run the risk of reducing protection to its monetary utility. By focusing on the economic benefits of social provisions, we lose sight of the much broader objective of guaranteeing people's livelihoods (Polanyi, 1977).

The EU's discourse on modernising social protection (COM/1999/347; COM/2000/379; COM/2001/0313; COM/2001/362; COM/2003/842; COM/2004/137; COM/2005/706; COM/2007/359; COM/2008/418) tries to make the business case for this move by arguing that it is important for competitiveness of its economy. It is argued that social protection can bring economic benefit by creating opportunities for economic growth and the development of new markets. Protection is justified not in its own right, but by means of turning it into an input in the production process (Annesley, 2007). Within the new Social Investment Pact, protection is framed as an investment and the Commission is making the business case for protection by stressing the 'efficiency gains in social policy' (COM/2013/83). Under the new strengthened policy surveillance mechanism, the European Semester, the Commission monitors the member states' efforts in modernising their social protection that are supposed to make work pay through labour market activation policies (Wincott, 2003; Hantrais, 2007).

By disseminating a pro-market social policy reform, the Commission risks denying the multifaceted needs of humans, which Polanyi (1944) showed to be detrimental. Under the new market-based approach, the human nature is denominated in labour terms and is thus in need of protection for the sake of sustaining economic growth. Protection is promoted because of its potential to motivate employees and hence make them more productive. This capital-friendly social model reduces the complexity of

human nature to its economic utility because protection is pursued for the sake of efficiency and its contribution to the competitiveness of the European economy (Young, 2000).

5.3.3. Marketisation of Environmental Policies

A similar trend of marketisation of protection can be observed in the environmental policy domain. The best-known example of this practice is the European Emissions Trading Scheme launched in 2005 which now includes the aviation industry and was extended to six greenhouse gasses (GHGs) including carbon dioxide (CO₂) (Directive 2003/87/EC). The organisational paradigm works according to the cap and trade principle, i.e. first we have allocation of allowances to polluters for a multiannual period which can then be traded according to the needs of the market (Oberthür and Pallemerts, 2010; MacKenize, 2007). The ETS system was promoted on the basis of its cost-efficiency whereby ‘the expectation is that difficult-to-control sources of pollution will buy permits to continue polluting, while easy-to-control sources reduce emissions and sell their unused permits for a profit.’ (Spash, 2010: 173).

In the first two phases of the ETS from 2005 to 2007 and from 2008 to 2012, the member states allocated 95% and 90% of the permits free of charge respectively, resulting in a surplus of permits, a fall in the price of carbon permits down to 2.8 euros, and windfall profits of up to US\$112 billion by 2012 for the companies which were able to pass the bills onto the consumers despite the low price of carbon permits (Spash, 2010; Lohmann, 2010; MacKenzie, 2007). The problems cited above enticed scholars to call for a fixed carbon price rather than carbon quotas (Newbery, 2010). The problem of over-allocation typical for the first two phases of the ETS at least should be partially fixed with the new reforms starting from 2013 which instituted a

centralised allocation of permits (mainly given to the manufacturing sector), an auctioning of more than 40% of the allowances and an EU wide cap (Directive 2009/29/EC). Aside from this, we can see that the system does signify a turn towards protection (see the section on environmental policy for the historical development of the ETS). However, it is a special type of protection in that it expects the market to find the price of pollution.

Under the new environmental protection paradigm, the dislocation is itself commodified by being quantified, priced and traded. Even if pollution is a failure of the market, the market is seen as the most efficient way of dealing with it by internalising its cost within its business strategy. Rather than establishing a restrictive pollution tax or comprehensive environmental standards, the protection provided by the ETS leaves it to the market to determine the value of pollution which in 2007 even fell to zero. Both the new social and the new environmental paradigm are constituted by the neoliberal market rationality which effectively ruins the boundaries between the economy and society. The neoliberal market episteme is no longer 'satisfied with conceiving the rationality of the market as a distinct and limited form of social action, it instead posits the rationality of the market as the organisational principle for state and society as a whole' (Shamir, 2008: 6). While the command and control system in the 1990s was predicated on the enforcement and compliance of strict standards (Collier, 1998), the new environmental paradigm naturalises the market as the best response to climate change problems and delegitimises any alternative way of tackling pollution (Paterson and Stripple, 2012; Spash, 2010).

If climate change was previously understood as a 'costly burden', now under the new paradigm it is framed as an investment opportunity capable of generating new

markets, jobs and innovation (Oberthür and Pallemerts, 2010: 103). By trusting the market to tackle the externalities, environmental concerns get subsumed within the core business strategy where the profit orientation continues to predominate. The ETS takes protection out of the public realm and transforms it into a business decision that needs to meet the standards of efficiency and cost-effectiveness. The very act of turning protection into a business matter and removing it from the realm of public deliberation represents a type of microeconomic depoliticisation of environmental protection that perfectly complements the rule-based depoliticisation of the macro-economic regulation as elaborated by Burnham (2011). The act of depoliticisation does not imply a disappearance of politics altogether, but rather signifies the disappearance of the autonomy of the political (Hardt and Negri, 2000). Although ETS apologists try to justify the marketisation of climate change as the most efficient mechanism, the very act of doing so is an expression of power that is profoundly political.

Rather than trying to correct the dislocations by decreasing the dependency on the market, the new protection furthers the commodification of non-economic relations. The ETS brings into existence a new market that is predicated on the liberal rationality of decentralised individual decision-making (Lane, 2012; Paterson and Stripple, 2012). The commodification via the ETS happens through the appropriation of the atmosphere and the allocation of carbon permits which effectively grant property rights to private companies (Spash, 2010; Paterson and Stripple, 2012; Lohmann, 2010). Gilbertson and Reyes (2009: 12) explain how the commodity 'carbon' does not actually exist:

a single tradable unit is needed in order to create a market, and for this purpose a whole set of incommensurable practices, undertaken at different places and times – from making industrial processes more efficient to capturing coalmine methane and generating hydro-electric power – are treated as though they were the same.

Under the ETS, carbon is transformed into a fictitious commodity that is constituted by ‘imagined units, complex abstractions that exist only by way of agreement’ (Paterson and Stripple, 2012: 565). Although the history of the common unit of account can be traced back to the 1980s and the Global Warming Potential, the tonne of carbon dioxide equivalent (tCO_{2e}) as a unit of account was a product of the Kyoto Protocol negotiations (Paterson and Stripple, 2012). The ETS relies on the simplification of a complex reality whereby the tCO_{2e} is created as a unit of account that is supposedly capable of subsuming the different properties of all other greenhouse gasses (Spash, 2010; Lohmann, 2010). The creation of the tCO_{2e} unit of account presupposed the act of commensuration, which from a discursive point of view can be understood as the abstraction and reduction of the multiple properties of carbon to a single one that later enables the comparison between different GHGs (Stephan, 2012: 626). Following the creation of the single tradable unit, the carbon is ‘monetised into something sellable’ and financialised, i.e. ‘transformed into a financial standardised product’ (Descheneau, 2012: 604).

A Polanyian (1944) objection to such commodification of carbon can be built on the grounds that the ETS reduces the use value of carbon. Lohmann (2010: 239) has nicely observed the similarity between the commodification of land and the carbon in that it ‘distances carbon markets from the climate change problem in somewhat the

same way that historical land markets encouraged concrete processes of abstraction from the question of how land is used'. Instead of enabling us to think about alternative fossil-free ways of organising our economy, the ETS abuses the utility of the exchange value of carbon, which effectively is not produced for sale. All markets including the carbon markets have only one end goal, profit and as such they fall short of re-embedding the economy. The cap and trade system and the carbon market that it engenders do not differentiate between emission reductions measures that have qualitatively different effect on the environment (Lohmann, 2010). 'From a compliance market perspective, for instance, it does not matter if a wind turbine is built to compensate for emissions reductions lost via clearing a patch of forest. From a biodiversity perspective, however, there is a considerable trade-off involved' (Stephan, 2012: 633).

In addition to commodifying carbon, the ETS has also granted another level of mobility to capital which now can shop around to locate the markets where it is cheapest to pollute (Gilbertson and Reyes, 2009). The Linking Directive (2004/101/EC) allowed polluters to use the flexible mechanism envisaged in the Kyoto protocol to cover their emissions, i.e. it allows for offsetting by granting credits for implementing emissions-saving projects in developing countries. The Joint Implementation projects and the Clean Development Mechanism are the two flexibility mechanisms under the Kyoto protocol that were promoted as the cost-effective ways of reducing emission. The JI with its Emission Reduction Unit (ERU), which reduces emissions equivalent to one tonne of carbon dioxide (tCO₂e), provided developed countries with an opportunity to outsource their emission reduction efforts by implementing projects in other countries which are parties to the Annex I with reduction commitments. At the same time the CDM with its Certified Emission

Reduction (CER), which also reduces emissions equivalent to one tonne of carbon dioxide (tCO₂e), allowed developed countries to cover their emission reductions by implementing projects in countries that are not parties to the Annex I, i.e. developing countries that have no reduction commitments (MacKenzie, 2007). Although the reforms in 2009 put an upper limit on the usage of credits from JI and CDM projects, the domestic efforts made by different states to reduce their emissions can represent only 50% of their total reduction and the rest can be covered through the Kyoto flexible mechanisms. The JI and the CDM allows operators to dissociate the sources of pollution from the efforts at reduction (Spash, 2010). The JI and the CDM provide companies with additional flexibility to the one already provided via the market-based approach to reduction. Not only is capital given the flexibility of reducing pollution via market trading, it is also enjoying the benefit of shopping around for cheaper pollution costs. The JI and the CDM integration in the ETS dilute the effectiveness of domestic pollution reduction because companies can continue to pollute as much as before, if not more, as long as they implement emission reduction in other places where the marginal cost of pollution is significantly lower.

The most appalling extension of the commodity form is the forest sink, a special type of offset. Although under the ETS forest sinks are not allowed, the EU has made public its plans to establish a Forest Carbon Mechanism (COM/2008/645) that will entail the creation of a new commodity ‘the carbon captured by trees’ that will be privatised and auctioned to polluters. In addition, the EU has established the EU REDD (Reducing Emissions from Deforestation and Forest Degradation) Facility. Although it was not added as additional flexible mechanism under the Kyoto Protocol, it is still part of the climate change policy that is predicated on implementing offsets in the developing world. The REDD represents a ‘new

indulgences' for western consumers who are in the structurally superior power position that allows them to maintain their consumerist habits (Paterson and Stripple, 2012: 569).

Both the forest sink and the EU REDD Facility are ways of commodifying carbon, which effectively is a fictitious commodity in Polanyian (1944) sense of the word because carbon is not produced for sale, but represents an integral part of the biosphere. The REDD projects are predicated on a) the commensuration of a newly created asset - the carbon stock in the forests based on biomass calculations, b) the qualification and quantification of the biomass into an emission reduction, and c) hypothetical assumptions rather than on tangible physical activity such as reforestation (Stephan, 2012). This type of commodification which ignores any value other than the market one tends to reduce nature to its elements. The forests lose their non-economic significance, as related to aspects like biodiversity and recreational facilitation (Stephan, 2012). The management of the forests under the REDD is instead governed by the market imperative.

Furthermore, it is not only the case that forest sinks commodify the carbon content in trees. They also presuppose yet another unjust type of enclosure which has been partially realised under the Kyoto Protocol, allowing the afforestation and reforestation activities to count towards emission reduction, whereby any avoided deforestation is exchanged for continued pollution elsewhere. Companies once again are given the chance to profit by enclosing a common good in the same way as the enclosure movement in sixteenth century England granted public land to the new gentry in the name of economic improvement (Polanyi, 1944: 37). The appropriational act is instigated by the competitive price-making carbon market and

predicated on the exchange principle, and this thus crowds out the redistributive principle, resulting in asymmetric access to the 'goods' produced by nature.

5.3.4. Dialectics

Although the above trends of marketisation in both the social and environmental policy domains do not embed the economy, they still manage to impair the full functioning of the self-regulating market (Lacher, 2007). We have to acknowledge that the socio-environmental provisions supply minimal protection, even if that protection is business-driven. Nonetheless, they do not represent a total break from the previous neoliberal order that put in place all the social and environmental dislocations they purported to ameliorate. They are not a counterforce to neoliberalism, but a rather complementary occurrence, which both co-evolved with and also reinforces neoliberalism.

The new socio-environmental provisions purport to replace the traditional economising patterns of production and consumption with social and environmentally sustainable forms of production, however in doing so they do not transcend the neoliberal finance-led accumulation. On the contrary, it is complementary to the regulatory regime of rule-governed depoliticisation of the macroeconomic policy as defined by Burnham (2011) because it depoliticises socio-environmental protection by entrusting business to take care of the provision of matters which were previously managed publicly. The depoliticisation presupposed within the new socio-environmental paradigm represents an example of what Polanyi called a new-constitutionalism. Although Gill (1995) is considered the father of the analytical concept of new-constitutionalism, Polanyi (1994: 234) used this concept to denote the novelty of the constitutional safeguards which were provided under *laissez-faire*

capitalism and which were directed at protecting the market not from arbitrary interference from above, but from the people. Polanyi (1944) made a distinction between seventeenth century and nineteenth century constitutional protection which were directed against intrusion from the Crown and the people respectively. His nineteenth century constitutionalism is akin to Gill's (1998) new-constitutionalism in that, despite the difference in form given their distinctive epochs, they share a common enemy against which capital is protected, namely the people.

If we are to use Jessop's (2008) terms, we can say that under the new socio-environmental paradigm, the neoliberal accumulation strategy is fully preserved, while there is an attempt to create more inclusive and socially sustainable project, which unfortunately only fortifies its hegemonic position. Instead of getting capitalism without exploitation, we get capitalism without counter-hegemony. The new social and environmental paradigm is part of a wider trend by which the EU public authorities are signalling a turn towards *habitation* following a prolonged period of exclusive focus on *improvement*.

If the socio-environmental provisions do not re-embed the economy, then what do they do? They only influence the *rate of change* and not the direction of change which is the reinvention of neoliberalism. From a Polanyian point of view, Delors' well documented dedication to the idea of the European Social Models can be seen as an attempt to make the EU project socially bearable (Jespen and Pascaul, 2006). Polanyi measured the consequences of the anti-enclosure measures that were sheltering the vulnerable from the market creed not in terms of their ability to prevent the eventual creation of the market society, but in terms of their ability to decelerate the *rate of change* at which the liberal *improvement* was unfolding (Polanyi, 1944: 39). He urges

us to pay attention not only to the direction of change, but also to the pace at which the restructuring is unfolding.

Similarly, the intensified social and environmental legislation on the part of EU public authorities serves the function of slowing down the *rate of change* that allows people to adjust to the neoliberal *improvement*. It serves to convert the neoliberal *improvement* into a constructive process, i.e. into an inclusive and sustainable project (Jessop, 2003). It also transforms neoliberalism from a bad master into a good one, and there is nothing worse than a master that is good to his/her slaves because it only perpetuates the exploitative system (Žižek, 2010). Rather than being a counter-hegemonic force capable of transcending the market pattern, the socio-environmental provisions are mere palliative care to capitalism that hinders progressive possibilities (Burawoy, 2010).

However, unlike Polanyi (1944) who hinted at the conflicting tendency between the principles that further the market form and those that impair it, the Commission is convinced of the possibility of achieving *improvement* and *habitation* concomitantly (COM/1999/347; COM/2000/379; COM/2001/0313; COM/2001/362; COM/2003/842; COM/2004/137; COM/2005/706; COM/2007/359; COM/2008/418). Moreover, the Commission claims that *improvement* can be secured by enhanced *habitation*. How feasible is the proposed coexistence of these two dynamics and what are the consequences of their interplay? Can we really have a competitive, yet socially cohesive and environmentally sustainable economy?

While for many critics the problem with the new social investment paradigm lies in the incomplete implementation (Cantillon, 2011; Vandenbroucke and Vleminckx, 2011), from a Polanyian perspective the new socio-environmental paradigm is

disastrous not because of the way it is implemented, but because it purports to resolve two irreconcilable goals: free market and social needs (Streeck, 2012a). Panitch (2014: n.a.) does an excellent job at downplaying the prospects of re-embedding because that ideal was not realised even with the progressive post-war regime, whereby ‘the undoing of those reforms after just a few decades shows that a responsible capitalism is indeed a contradiction in terms’. Contradictions ensued immediately after the undermining of the capitalist accumulation by the Keynesian bargain. Similarly, the compromise between liberalisation and protection under the new paradigm is only at the level of appearance and does not represent a true synthesis capable of transcending the inherent contradictions between the two principles because protection is itself predicated on a commodifying logic.

The recent tendency towards pluralising Polanyi’s work has resulted in work that relies on a mechanical understanding of dialectics, which assumes that ‘the third stage (‘synthesis’) automatically results in *overcoming* contradiction, rather than its *sublation*’ (Brincat, 2010: 682). We instead need to acknowledge that dialectic is an open-ended process imbued with antagonisms which do not inevitably lead to progress. Polanyi (1944) himself understood the disruptive dynamic between the liberalising and protective tendencies that do not necessarily result in re-embeddedness. On the contrary, in Polanyi’s (1944) analysis the coexistence of the two principles led to the crisis of the twentieth century. Block (2003: 287) provides a very good explanation for the paradox of the utopian nature of the self-regulating market on one hand and the production of crises on the other hand:

The core of this argument is that the crisis was rooted not in the fact that self-regulation was impaired; the impairing of market self-regulation was inevitable.

The problem was that the various forms of protection practiced by nations coexisted with an international gold standard that rested on the principle of market self-regulation.

Polanyi observed that the clash between liberalisation and protection results in ‘disruptive strains’ (Dale, 2010: 63). Although the principle of *habitation* fosters wellbeing by attempting to integrate the market and the society, this integration is partial in the context of an intensified marketisation (Dale, 2010: 69). Streeck (2011a; 2012b) contends that the attempt to reconcile the two principles is utopian in nature and harbours an inherent contradiction as exemplified in the many crises of democratic capitalism, including the recent economic crisis that shows the intensified dialectic between the two principles of liberalisation and protection. Polanyi (1944) was aware that full scale embeddedness implies not a mere correction at the level of distribution, but a complete transformation of the regime of production (accumulation). The utopian assumption that we can maintain the neoliberal regime of accumulation as long as it is accompanied with some social-democratic distributive system is exactly the source of instability. The utopia resides in the belief that you can just change the redistributive component without disturbing the mode of production. However, contrary to expectations, the protective measures impair the full functioning of the self-regulating market; and therein lays the disruptive momentum.

The limit of the market creed is best seen in this parody of providing decommodification via further commodification. The disruptive dynamic is further exacerbated under the new paradigm, whereby the protection itself is secured via further marketisation of social relations. Social stability is sought through the institution that created those dislocations in the first place. But it is that very paradox

of the marketised social and environmental protection that renders palpable the utopian nature of the market society. The marketisation of socio-environmental protection is not accidental, but structurally necessary and produced by the contradiction between the liberalising and protective tendencies, which have been totally debilitated and made to serve the interests of capital. The extension of the market creed demands the full spread of the market rationality in all domains, including the social and the environmental.

Polanyi (1944) understood the moral limits of leaving it to the market to determine the provision of people's livelihoods. Polanyi (1977) conceived of the market not as a neutral device that is the most efficient way of securing the wellbeing of the society, but as a political construct that favours those who have more power and money. Contrary to the assertions of the likes of Hayek (1976) who praised the ability of the market for their ethical neutrality, markets are predicated on ethical individualism. Polanyi (1977) warned that markets are only concerned with profits and lack any moral dimension. Thus, even if the market manages to secure certain levels of social and environmental protection, we should be cautious about the consequences of allowing the market to secure our livelihoods. Rather than eagerly accepting the seeming efficiency of the market, we should engage in public deliberation about the importance of other social norms within the provision of our public goods such as social and environmental protection. We should bear in mind that the market rationality crowds out discussion about purposes and motivations other than the profit motive (Polanyi, 1977). Under the auspices of the market, social protection is to be supplied only insofar as it can be turned into a monetary achievement. The market actors are incapable of recognising protection as a right, but instead see it as a means to achieving greater profit (Hopgood, 2009).

Polanyi (1944) warned that by subjecting certain things to the competitive priced-making markets we devalue their intrinsic worth. Thus, under certain circumstances we should oppose the market despite its efficiency. Sandel (2012: 35), unknowingly adopts a typical Polanyian critique of the market triumphalism in our civilisation, which he claims reached ‘a market society status’. He argues that even if ‘markets in sexual favors or votes or mercenaries turned out to be efficient, and even if they arose from voluntary agreements, such markets might still be objectionable’. Sandel’s (2012) critique of the extension of the market into every social domain is based not only on the fact that the markets tend to neglect those without any means, which creates greater inequality, but he also argues that the biggest problem with monetising everything is the lost sense of commonality. This lost sense of solidarity that was inscribed within the conventional welfare state model is slowly being eradicated under the new socio-environmental paradigm which calls for individual responsabilisation (Shamir, 2008).⁶⁸ Under the neoliberal agenda, even the allocation of the socio-environmental protection is turned into a private matter rather than being treated as an essential objective of the community at large. By extending the market form to all social domains, even when it comes to the pursuit of security, we allow money to become the determining aspect of life, and this can negatively affect the social fabric (Polanyi, 1977).

5.3.5. The Politics of Inaction

The neoliberalisation of the social and environmental policy fields is visible not only in the actual efforts of disseminating a new socio-environmental paradigm predicated on marketisation, but also in the measures not implemented in the aftermath of the

⁶⁸ Responsibilisation presupposes moral reflexivity and it is understood as ‘the practical link that connects the idealtypical scheme of governance to actual practices on the ground. Responsibility in contrast to mere compliance with rules’ (Shamir, 2008: 7).

financial crisis. The non-action of the political authorities speaks great volumes about the rootedness of the idea of the self-regulating market, even more than the policies that actively institute the idea itself. The lack of any mention of the need for public sector investment during the biggest economic slump in recent decades is indicative of the politics of inaction. The Politics of Inaction sheds perfect light on the shallowness of the social cohesion discourse of the EU. How should a scholar interpret an absence of a variable which in this case the variable under consideration is a demand-side policy that has abdicated in the name of the supply-side measures? I take Young (2012) model of criticism, whereby she dares criticise even the most praised EU policy on gender equality by emphasising the lack of synergy with other policies. Thus, '[T]o promote the employment of women in the absence of an active job-creation policy and in the context of public-sector cutbacks seems like trying to square a circle' (Young: 2012: 83).

While the EU acknowledges the role of the labour market in securing social cohesion, it refrains itself from engaging in any demand-side measures to stimulate the economy and correct the dire state of unemployment. Not only has the EU abandoned its commitment to full employment, which Cafruny and Ryner (2007a) interpret to be a sign of welfare state retrenchment, but it has given up its efforts to correct the prolonged slump, which Kalecki (1943) observed was the only time the *laissez-faire* economists support minimal state expenditure, i.e. the so-called regime of political business cycle.⁶⁹ At the policy level we witness a paradox whereby the EU has singled out the labour market as the best guarantor of social inclusion, all the while at best itself refraining from measures to create jobs and at worst pursuing austerity

⁶⁹ In his exploration of the political, but not economic, impediments to full employment, which can be achieved by public investment, Kalecki (1943: 323) concluded that 'obstinate ignorance is usually a manifestation of underlying political motives'.

policies that damage the wellbeing of the workforce. Although this thesis refrains from defining any positive measures to lead the way out of the socio-environmental calamity, it does assert that the current program of public cuts is counterproductive. The road to embedded European economy is not via the new socio-environmental paradigm that is supportive to the deflationary macroeconomic policy agenda. To use one well-known anecdote about an English tourist in Ireland who asks Dubliner for directions to Dublin: I do not know how to get there, but if I were you I would not start from here.

If prior to the crisis policy rhetoric was centred on the need to reform welfare state models due to the new risks and challenges such as changing demographics, aging society and globalisation pressures, nowadays the economic crisis is used to justify the continued commitment to the socio-economic restructuring initiated with the Maastricht Treaty and the Lisbon Agenda. The socio-economic restructuring is pursued with even greater fervour under the new European Semester policy surveillance mechanism. The Commission has warned that the ‘Annual Growth Survey (AGS) launching the 2013 European Semester stipulates that the on-going process of restructuring our economies is disruptive, politically challenging and socially difficult, but that it is necessary to lay the foundations for future growth and competitiveness that will be smart, sustainable and inclusive’ (COM/2013/83: 5).

The new paradigm of social inclusion focuses solely on the up-skilling of the workforce and the dismantling of the labour market rigidities which have been identified as the sole obstacle to higher employment rates. The activation mantra has put the blame on individuals for their position within the labour market and the skills gap is identified as the culprit for the unemployment figures. However, the argument

about the lack of a skilled workforce is neither new nor substantiated. Krugman (2012) notes how in the early twentieth century the skills shortages were singled out as the cause for the high unemployment figures, which, in the post-war period proved to be an illusion that was fixed thanks to the demand-side measures to create jobs.

The fabricated idea of skill shortages distracts us from talking about alternative ways of fixing the dire social calamity that the EU is facing. The up-skilling myth, the cornerstone of the social investment package, ignores any direct damage inflicted upon the labour market itself thanks to the structural problems of the Economic and Monetary Union (EMU) placing price stability, and not full employment as its primary objective. The problem with social policy is not only that it is increasingly marketised but also that it is constrained by the existing economic and monetary arrangements, which even the proponents of the Social Investment Pact, such as Vandenbroucke, Hemerijck and Palier (2011), agree is counterproductive. Rather than acknowledging the synergies between all the policies, the EU has cherry-picked one exit strategy which is failing to deal with the essence of the crisis. Although the EU stylises itself as an actor who promotes social inclusion and environmental sustainability, it fails to take effective action primarily because its monetary and economic policies affect the social and environmental policies in a very direct manner. Young (2000:78) has rightfully criticised the scholarship that enthusiastically applauds the EU social and equal opportunity agenda, when in fact those policies are part of the 'larger transnational 'market-making' effort of the EU', predicated on liberalisation, deregulation and flexibilisation. Despite its pro-social rhetoric, the 'deflationary macroeconomic environment resulting from the Maastricht criteria is counterpoised to the social and employment guidelines enacted by the EU.' (Young, 2000: 82).

Part of the empirical work conducted for this dissertation consisted of interviewing a number of policy officers at the DG Employment and Social Affairs who were generous enough to invite me to contribute as a representative from academia in the policy evaluation processes that take part during the Council Summits in December each year. I therefore participated at the Second Convention of the European Platform against Poverty hosted by the Commission from 5-7 December 2012. This Convention is one of the seven Flagship Initiatives launched in 2010 which is supposed to work towards the achievement of the 2020 Strategy's objective of lifting 20 million people out of poverty. The title of the conference, *Investing in Social Europe*, speaks volume about the content of the policy that were being considered. During the convention, the policy makers reiterated their commitment to the supply-side measures aimed at including the socially excluded by activating them in the labour market and increasing their employability by up-skilling their competences. Although the civil society representatives, such as the European Anti-Poverty Network and the European Federation of National Organisations Working with the Homeless (FEANTSA), raised concerns over the commodifying logic of the social provisions that do not insulate the population from the vicissitudes of the market, no member state delegate, even those coming from governments with socialist disposition, considered the possibility of an alternative approach to fighting poverty. Stressing their fiscally restrained positions, the social affairs ministers declined the Commission proposal for ring-fencing 25% of the Cohesion Funds for the European Social Fund (ESF) and earmarking 20% of the ESF to fight poverty. A pro-growth Keynesian strategy was not present in the policy-makers' vernacular from any shade of the political spectrum. So even though they singled out having a job as the best exit strategy from poverty, politicians did not foresee any measures for creating jobs.

Although activating people in the job market is not a bad idea in itself, this presupposes the existence of an effective demand for workers that at present is lacking even in the USA, let alone in Europe.⁷⁰

The absence of the pro-growth measures itself is indicative of the marketisation of social policy. This politics of inaction on the part of the EU authorities sheds light on the superficiality of the social cohesion rhetoric of the EU. We are still yet to see a formulated policy and institutional response to the social problem of unemployment. As Kaboub (2007: 499) has rightly observed, by attempting to solve a macroeconomic problem (unemployment) by microeconomic means (activation policies) the policy makers are committing a fallacy of composition because the ‘[J]ob search-promoting policies and policies that promote worker mobility cannot deal with the unemployment problem if it is arising from low effective demand’.

Unfortunately, the post-crisis policy responses on the part of the EU authorities not only fail to address the dire social and environmental situation, but also further exacerbate the problem by preventing a quick economic recovery that can lift people out of poverty and exclusion and fix the problem of climate change. Rather than initiating a U-turn in the policy course of competitive austerity, the looming sovereign debt calamity - which should be read as the failure rather than the cause of the economic crisis (Brassett *et al.*, 2010) - has propelled a deepened economic and fiscal integration along neoliberal lines. The idea of the self-regulating market is deeply ingrained in the recent austerity measures that further consolidate the neoliberal edifice. The post crisis reforms, envisaged by the Fiscal Compact, the Six-Pack, the Two-Pack, and the Euro-Plus Pact, are characterised by an intensified disembedding

⁷⁰ Notwithstanding its return to the pre-crisis GDP levels, the US economy is marked by a jobless recovery.

tendency that has reified the neoliberal creed. The recent reforms reaffirm the non-death status of the neoliberal creed (Schmidt, 2014). Many scholars have persuasively argued that the politics around the construction of the crisis narrative and the subsequent solutions that it engenders are hardly related to the underlying problems (Blyth, 2013; Krugman, 2012; Lapavistas *et al.*, 2012; Schmidt, 2014; Gamble, 2009). This, in turn, offers very powerful evidence about the entrenchment of the monetary orthodoxy and the heightening of the disembedding tendency.

Kauppi (2005), in his efforts to explain the structuration process of the European political field, emphasised that researchers should pay attention to the situational action that captures the temporality of history. In doing so, researchers should analyse the situational factors, like the opportunity moment or the *kairos*, which is distinct from the structure. One such *kairos* in our case was the Great Recession that created an opening for a change of the neoliberal course. However, regrettably the recent economic crisis not only failed to play the role of a *kairos* capable of inducing a U-turn in the macroeconomic policy, but it further reified the monetary orthodoxy.

While the financial sector has enjoyed special treatment from the public authorities, which granted 4.5 trillion euros, i.e. 37% of the GDP, of state aid to the financial industry from the onset of the crisis, the social and environmental policy are given the budgetary rectitude treatment. Žižek (2009) has astutely commented on this contrast between the legitimating efforts of the over-sized bank-bailouts and the vilification of any efforts to stop rising income inequality. The crisis indeed showed that, if needed, the public authorities can put forward a great amount of public funds for a cause, such as the prevention of financial meltdown. Yet there is a visible policy unwillingness to provide comparable amounts of public funds to save the environment and support the

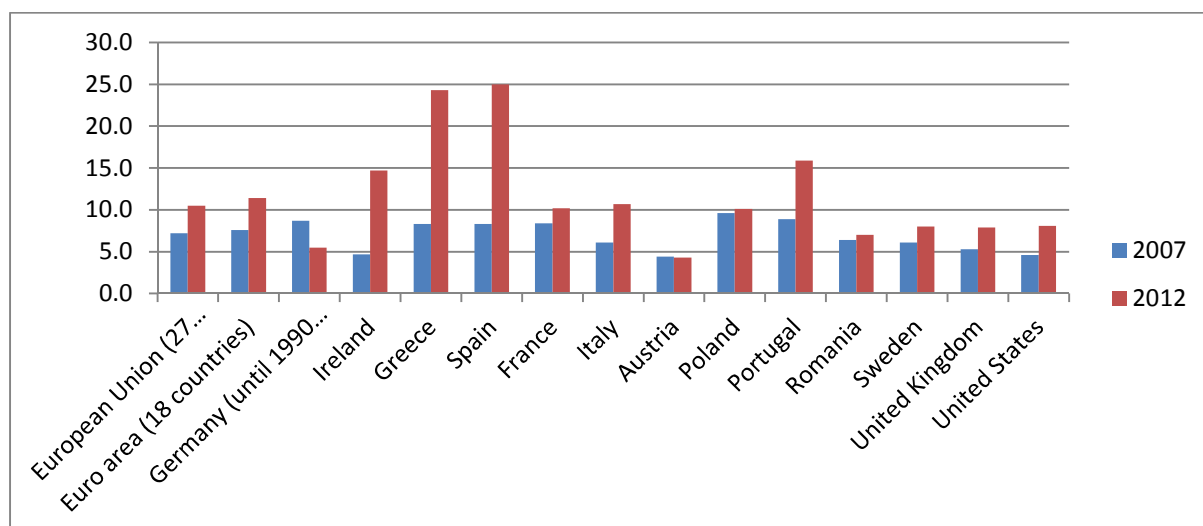
poor. The crisis did not result in any serious policy challenge to the existing fossil-dependent, finance-led accumulation regime. Instead of committing itself to a New Green Deal, the Commission has remained dedicated to the idea of market-based solutions such as the Emission Trading Scheme that falls short of reversing the environmental dislocations caused by our economic development model.

It is in the management of the sovereign debt crisis, whereby the peripheral states were wrongly accused of not introducing structural adjustments to their economies, that we can best see how the ‘partial eclipse’ of the economic liberalism instigated by the crisis has ‘enabled its defenders to argue that the incomplete application of its principles was the reason for every and any difficulty laid to its charge’ (Polanyi, 1944: 149). Rather than the very design of the EMU, which seems to deviate from the standards of optimum currency area, the first point of attack by the neoliberal apologists was the lavish collective agreements in the periphery and the labour market rigidities, which allegedly led to a crisis of competitiveness (Tsoukala, 2013). Thus, it is incumbent upon the critical scholarship to render problematic the premise of the skill shortages myth, which was justified by a successful fabrication of the facts by the same economic liberal thinking that advocated a return to stable exchanges and balanced budgets during the interwar period as explained by Polanyi (1944).

The up-skilling agenda of the EU falls short of amending the economic downturn and stagnation manifested in the unsustainably high unemployment levels of 10.9% and 12.1% in the EU27 and the Eurozone respectively, alongside youth unemployment data which stands as high as 24% in the Eurozone, and reached alarming levels of 50% in Spain and Greece in 2013. Just as during the crisis in the 1920s, the restoration of the currency and stable exchanges implies a subordination of social

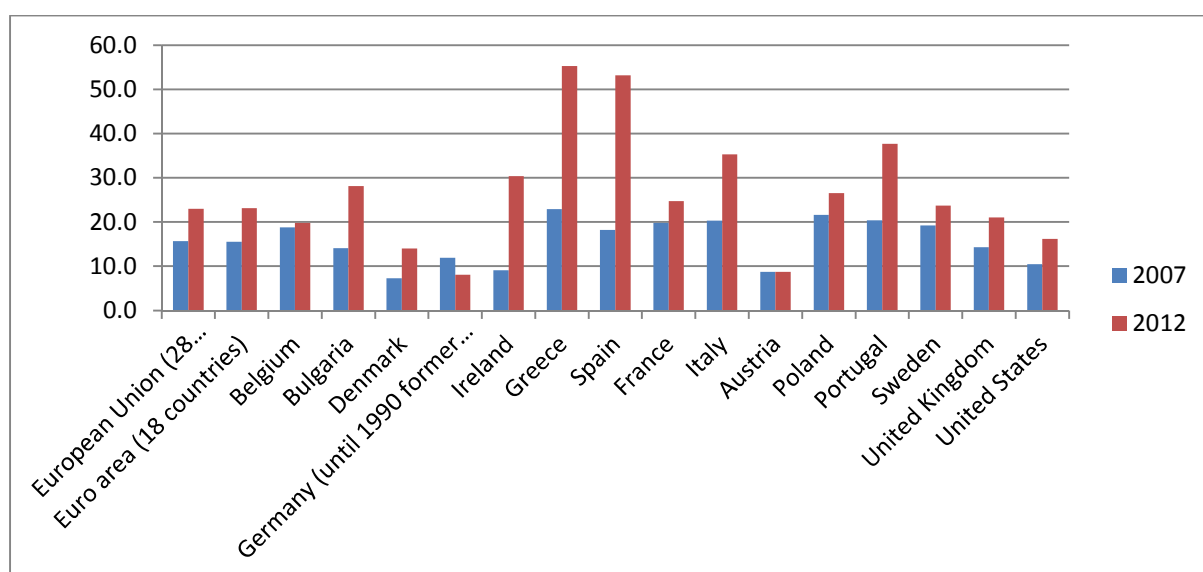
concerns via ‘governmentally adjusted prices and wages’, i.e. deflation (Polanyi, 1044: 241).

Figure 7 Unemployment Rate – Annual Change



Source: Eurostat

Figure 8 Youth Unemployment Rate – Annual Change



Source: Eurostat

Despite the dire unemployment figures, member state governments have not formulated any tangible growth strategy to boost economic activity within the EU, notwithstanding the recent approval of the Compact for Growth and Jobs worth €120 billion (European Council, 2012). Contrary to the ample evidence, the European

politicians are neurotically clinging to the belief that all we need for a recovery to unfold is for the markets to gain confidence (Hemerijck, 2012). However, the proposed solution of fiscal tightening originates from a skewed twisting of cause and effect, wherein deficit spending is projected as the cause of the Great Recession. In the aftermath of the Great Recession in the construction of the crisis narrative in the EU, we have witnessed what Watson (2014b) has called a delinking of the symptoms and the disease, whereby the proposed solutions fail to address the primary systemic cause of the calamity. And every attempt is made to conceal the fact that it was the financial crisis that enticed some governments to acquire debt by bailing out their banks (Brassett *et al.*, 2010).⁷¹ Although scholars have warned that the austerity policies would not necessarily cure the patient (Hemerijck, 2012; Schmidt, 2014, Pivetti, 2013; Palley, 2013), politicians are depriving the population of a quick recovery by pursuing fiscal consolidation in times of depressed demand. Thus, Polanyi's (1944: 148) argument is even more valid today than ever, when:

the repayments of foreign loans and the return to stable currencies were [time are again] recognized as the touchstone of rationality in politics; and no private suffering, no restriction of sovereignty, is deemed too great a sacrifice for the recovery of monetary integrity.

The austerity hawks got several things wrong, chief of which the idea that the restoration of confidence is the only road to salvation. It is in their 'sustained effort of wilful ignorance' (Žižek, 2009: 9), that we see the resilience of the neoliberal policies.

⁷¹ Framing matters because 'the solution to a crisis of (public) debt is austerity – the rebalancing of public finances through some combination of cuts in spending and tax rises – whilst the solution to a crisis of growth is to identify and to make the transition towards an alternative growth model' (Hay and Wincott, 2012: 223). By framing the crisis as a problem of debt the policy makers make the welfare state the problem rather than the solution (Hay and Wincott, 2012: 223).

By falsely reducing the economy of the state with that of the household, the neoliberal thinking fails to realise the importance of systemic variables. Fiscal austerity does not work when the economy is performing sub-optimally, especially when even low and sometimes negative interest rates fail to boost private consumption. Krugman (2012) introduces three paradoxes of: a) thrift - when saving negatively affects income and production levels because everybody engages in it concomitantly, b) deleveraging - when everybody tries to liquidate their debt at the same time, and c) flexibility - when a cut in wages due to conservative pressures reduces the income available for spending. The austerity apologists fail to realise the problem of low aggregate demand. Someone has to spend for somebody to be able to save (Blyth, 2013; Krugman, 2012). The Memorandum of Understanding (2012) which demanded both a cut in wages and reduction of government deficit translated into sharp drop of both private and governmental spending. The peripheral countries bear the double burden of both getting their finances in order and supporting their ailing banks, yet the proposed solution of removing labour market rigidities is rooted in a power differential, whereby low income earners are the hardest hit. The macro-economic policies are indirectly generating dislocations that need to be addressed by social policy, yet the EU stubbornly refuses to acknowledge the synergies between the macro-economic and social policies.

The EU in the post-crisis period is characterised by a situation when *the debtors can't spend, the creditors won't spend* (Krugman, 2012: 46). Soros (2013) has claimed that the crisis in the EU is easily preventable, but self-inflicted. There is a glowing consensus in the academic community that the austerity policies are the sole reason why Europe ended in a prolonged recession (Blyth, 2013; Krugman, 2012; Lapavistas *et al.*, 2012; Soros, 2013; Buti and Carnot, 2012; Overbeek, 2012; Pivetti, 2013;

Palley, 2013; Streeck, 2012a; Moravcsik, 2012). The predominance of the monetary orthodoxy demands that we focus solely on correcting market confidence via budgetary prudence, trusting in the infamous confidence fairy myth, which was also discussed by Polanyi (1944: 237) who observed that the invariable blame put on both inflated wages and unbalanced budgets represent an over simplification of a much deeper problem. Similarly, his contemporary, Kalecki (1943:324), claimed that the ‘social function of the doctrine of ‘sound finance’ is to make the level of employment dependent on the state of confidence’.

The continued persistence of deflationary bias in EU monetary policy is counterproductive to the social cohesion agenda. The ECB’s obsession with price stability and its fear of inflation enticed it to raise interest rates to 4.25% in May 2008 just when the crisis was in full force, which in retrospect was a bad decision (Buti and Carnot, 2012). The anti-inflationary measure proved counterproductive in the wake of contracting European economies (Blyth, 2012). Hence, it was soon afterwards, in October 2008 that the ECB revised its decision and cut interest rates to 1% (Dinan, 2010). It was not only has the fear of inflation proved unwarranted, but also that the possibility of deflation soon emerged due to the prolonged period of low inflation, which in August 2014 fell to 0.3% (Krugman, 2012; Dinan, 2010). At the moment of writing, this thesis the deflationary fear is intensifying in the midst of a record high unemployment, low demand and falling prices. Yet, despite the dire indicators the ECB has refused to engage in any proper quantitative easing (QE) program until its most recent announcements about such possibilities later this year. Instead of embracing the QE, the ECB has implemented a Securities Markets Programme (SMP) aimed to contain the rising yields on government bonds (ECB/2010/5) and this was coupled with a sterilisation program which was meant to keep the supply of money

constant, i.e. the money injected into the bond buying scheme are effectively withdrawn by offering to banks equal amount of interest-bearing deposits (Gros, 2012; Varoufakis, 2013). Such action on the part of the ECB effectively deprives the Eurozone from the quantitative easing (QE) measures, which were ferociously pursued by the central banks of the US, UK and Japan. In a context where the interest rates cannot be further cut because negative interest rates will punish banks for holding funds, and when the fear of inflation are non-existent, the ECB could afford a major QE program that would supply funds to the depressed economies (Krugman, 2012). The ECB's adamant refusal to deploy such very effective tool in boosting the economy is indicative of the predominance of the disembedding tendency. Polanyi's (1944: 237) conclusion about the financial sector's ability to 'obstruct any domestic move in the economic sphere which it happens to dislike, whether its reasons are good or bad' is applicable to the current predicament.

Polanyi (1944: 234; 1977) criticised the monetary orthodoxy for identifying inflation as an 'intervention with the right of property'. The inflation-targeting regime is an archetypical disembedding measure whereby the creditors are protected from erosion of the real value of money. In the neoliberal era, just like during the *laissez-faire* regime, the *principle of improvement* demands not only a commitment to 'sound budgets', but also 'sound currency' (Polanyi, 1944: 236). The latest steep fall in the inflation rate to 0.3%, which is way below the set target of 2%, is a product of the commitment to sound currency, rather than a booming economy.

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The above two chapters have attempted to explore the governance structure of the European Union through the Polanyian lenses of disembedding and embedding

tendencies. By exploring the nature and interaction of these two tendencies, this thesis argued we can get a better understanding of the direction and the implications of the integration project. The evidence suggests that in the post-crisis period we are witnessing an extension of the disembedding tendency, which continues to be embedded in a specific socio-environmental paradigm. However, we need to recognise the novelty of this paradigm that is predicated on market rationality and provides protection in so far as it meets the interest of the market itself. The above chapter claimed that from a Polanyian point of view the marketisation of the embedding tendency is ripe with disruptive dynamics

Chapter 6 Conclusion

‘To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity, "labor power" cannot be shoved about, used indiscriminately, or even left unused, without affecting the human individual who happens to be the bearer of this peculiar commodity. In disposing of a man's labor power the system would, incidentally, dispose of the physical, psychological, and moral entity of "man" attached to the tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighborhoods and landscapes defiled, rovers polluted, military safety jeopardized, the power to produce food and raw materials destroyed’

(Karl Polanyi, 1944: 73)

On the one hundredth anniversary of the outbreak of the First World War, Europe could not look more different. Once a battleground between old rivals, it has now moved away from the path of national hostility towards one of integration that has fundamentally transformed its political economy. In a matter of a few decades since the signing of the Treaties of Rome and Paris the continent has been transformed into a Union with its own Single Market and currency. Although not making the state obsolete, the Union has redefined the boundaries of the system of rule which is now predicated on a complex multi-level topography that has a direct bearing on the lives of Europeans (Hix and Høyland, 2011; Jørgensen, Pollack and Rosamond, 2006; Kauppi 2005). The lack of exclusive competences in the redistributive policies does not in any way imply a total absence of redistributive consequences of its extensive regulatory reach. On the contrary, the political system of the EU has wide policy reach and multiple governance instruments in place, such as the ordinary legislative procedure, the special legislative procedures, the Open Method of Coordination (OMC), the autonomous agreements under the Social Dialogue and the European Semester.

Notwithstanding the central stage occupied by the debate on the drivers of EU integration between the neofunctionalists and the intergovernmentalists led by Mittrany, Hass, Lindberg, Hoffmann and their contemporary advocates Moravscik (1991) and Sweet and Sandholtz (1998), the EU Studies field has experienced a renaissance of various scholarly turns that have filled the blind spots in the existing integration doctrines (Rosamond, 2000; Saliba, 2010; Telò, 2011; Jensen, 2007; Cini, 2007; Bomberg, Peterson and Stubb, 2008). The Europeanisation, governance, regionalism and constructivist turns have all proposed a new take on the well-established integration reasoning by shifting the attention away from the grand-bargaining moments and instead looking at the various aspects of the EU political system. One such turn was critical international political economy scholarship which has provided a unique scholarly intervention in the debates on the EU by identifying a structural bias in the mainstream scholarship. This bias neglects to account for the interplay between the EU integration project and the wider capitalist development that underpins it.

Without questioning the tremendous successes of the European Community at thwarting war and engendering economic progress by removing barriers for economic, political and cultural exchanges, this thesis aimed to problematise the existing regulatory structure that disposes immense structural power by allocating different capacities to different positions. Contrary to the mainstream scholarship, which often obfuscates the antagonistic nature of the EU political economy by creating an aura of functional inevitability around the construction of the existing order, the critical scholarship strives to foreground the deliberate institutional choices that constitute the EU. Power, it argues, rather than functional superiority

predetermines the specific institutional arrangements while excluding alternatives (Hurrell, 2007).

This PhD project shares a common objective with the critical turn in EU studies by trying to provide a qualitative assessment of the consequences of the integration project (van Apeldoorn, Drahokoupil and Horn, 2008; Overbeek and van Apeldoorn, 2012; Horn, 2012). In the efforts to explain the form of the integration, scholars neglected to investigate more profound matters, such as the ramifications of the EU project for society at large. The EU project is marked by constitutional asymmetries that constrain the policy space of member states; all the while leaving little prospects for meaningful social-democratic solutions at the EU level because of the normative and material diversities among the members (Scharpf, 2002; 2012).

6.1. Research Question

This research positioned itself within the critical turn and aimed to further the efforts of highlighting the unresolved antagonisms that accompany the EU integration process. This dissertation undertook the task of exploring the political economy of the EU by asking the question of whether the EU economy is disembedded within the Polanyian understanding of the term. The legitimacy deficit of the neoliberal policy solutions, which relies on a growth model dependant on the expansion of credit, over-leveraged institutions and asset price inflation (Palley, 2012; 2013; Hay and Wincott, 2012), has been punctured by the Great Recession. This, in turn, gave rise to questions about the sustainability of the current system and popularised the usage of Polanyi's concept of disembeddedness and his double-movement thesis (Dale, 2012). This PhD project joined the chorus of those scholars who find Polanyi's concept valuable in helping us unearth the perils of the market economy. The main puzzle that

this thesis tried to resolve is the status of the EU in terms of disembeddedness. To that end, the thesis asked the following questions:

- a) What does a disembedded economy entail?
- b) Has the Great Recession heralded an end to the disembedding tendency inaugurated by the onset of the monetary orthodoxy in the 1980s?
- c) How should we interpret the ever-growing evidence of social and environmental measures at the EU level? Do they engender a new double-movement dynamic and re-embed the economy?
- d) What is the interplay between the new socio-environmental paradigm and the attempts of creating competitive knowledge-based economy?

6.2. Positioning of Thesis

The onset of the neoliberal economic order with its reinvented self-regulating market idea instigated a resurgence of interest in Polanyi's (1944) theory of the market society. His conceptual vocabulary has gained some traction within the community in the aftermath of the crisis. *The Great Transformation* has gained a status of canonical text of no lesser importance than the works of Adam Smith, Karl Marx and Antonio Gramsci among many. European studies scholarship has not remained immune from the growing popularity of Polanyi's ideas. Within this scholarship we find increasing reference to Polanyi's work that can be roughly categorised for analytical purposes into two separate groups: one that provides an affirmative answer to the question of whether the EU is disembedded and one that finds evidence to the contrary. The latter view is present in the writings of Hettne (1997; 2002), Caporaso and Tarrow (2009) and Copeland (2009), while the former in the works of Gill (1995; 1998; 2012), Harmes (2001; 2006; 2012), van Apeldoorn, Drahočoupil and Horn (2008), Bohle and Greskovits (2007) and Overbeek and van Apeldoorn (2012). This thesis positioned

itself vis-à-vis these two scholarships by critically mapping their distinctive usage of Polanyi.

Hettne (1997; 2002) belongs to the scholarship that tends to look at the EU integration project in a more optimistic manner. In his new-regionalism conceptual apparatus Hettne (1997) identified the Common Market as a Polanyian counter-movement aimed at embedding the EU political economy in a neo-mercantilist transnational protectionism. Therein, the EU is praised for its ability to manage globalisation in a social-democratic way by countering the liberalisation of the world economy. Caporaso and Tarrow (2009) have provided equally optimistic assessment of the EU integration on the basis of new evidence found in the ECJ jurisprudence that goes beyond predominantly the market-making reasoning of the Court. The free movement jurisprudence has been praised by Caporaso and Tarrow (2009) for its ability to embed the Single Market at the regional level by extending social citizenship rights, such as access to health-care and social protection, to migrant workers and their family members. Copeland (2009) is yet another scholar who has joined the chorus of re-embeddedness. By examining the Lisbon Strategy and its social invocation, Copeland (2009) has identified the emergence of The Third Great Transformation. Despite the temptation to find similarities between *laissez-faire* liberalism and neoliberalism, it is not enough to merely identify a crisis in neoliberalism and proclaim the birth of a new double-movement, which, this thesis argued, has not been forged during the recent economic crisis.

This thesis recognised the immense contribution of scholars like Hettne (1997; 2002), Caporaso and Tarrow (2009) and Copeland (2009) who have struggled to highlight certain blind spots in the EU studies scholarship. They have presented new empirical

evidence of social protection that calls for a new analysis of the EU predicament. This thesis maintained their commitment to unearthing the forgotten instances of social protection and has gone a step further in factoring in the environmental measures in its assessment of the EU political economy. While accepting their evidence as valid, this thesis distanced itself from their conclusion, which it argues rests on a problematic usage of Polanyi's theory that reproduces an oscillatory understanding of reality (Cangiani, 2011; Dale, 2010; 2012). Based on a close reading of a critical stream within the Polanyian scholarship represented by Lacher (1999, 2007), Burawoy (2010), Watson (2014a), Dale (2010) and Streeck (2011), this thesis disagreed with the interpretation of the social measures as something that engenders the return of Polanyi to Brussels. I caution against the premature conclusion about the emergence of a new counter-movement. The evangelisation of Polanyi's gospel is welcome, but it should not come at the expense of pluralising his social critique by subjugating it to a conflictual epistemological tradition that alters his underlying normative arguments.

Contrary to the above optimistic accounts, the critical international political economy (IPE) literature has reached opposite conclusion about the EU economy. For analytical clarity this thesis distinguished two distinct traditions that use Polanyi's work in the IPE world: the new-constitutionalism view and the nuanced critical IPE scholarship. The former is best represented in the works of Gill (1995; 1998; 2012) and Harmes (2001; 2006; 2012) that see the integration project as a motor of disembeddedness controlled by a transnational mobile capital. This thesis shared their commitment to problematising the extension of the idea of the self-regulating market in the EU. Polanyi (1944: 234) was the first to use the concept of new-constitutionalism to describe the legally enacted measures in the nineteenth century

that curtailed people's ability to exercise their decision-making power over the economy. Nevertheless, the thesis identified a structural bias in Gill's (1998) and Harmes' (2006) analysis that neglects systematically the increasing evidence of social and environmental protection, which ignores Polanyi's fine-tuned perceptiveness of both the disembedding and the embedding instances. Though the critical scholarship has many virtues, attention to growing instances of socio-environmental protection is not one of them.

The nuanced IPE scholars, like van Apeldoorn, Drahokoupil and Horn (2008), Bohle and Greskovits (2007) and Overbeek and van Apeldoorn (2012), adopt a less hyperbolic view of the EU economy. By recognising the existence of social protection they conclude that there is an embedded neoliberal bargain, which is a result of the compromise between the mercantilist, social-democratic and neoliberal political projects within the EU. Although this thesis remained closely inspired by their critical analysis, it attempted to expose one problematic assumption in their assessment, namely the conflation between embeddedness and social policy. Given the commonly accepted assumption that all economic systems are socially embedded, it is redundant to qualify the current predicament as embedded-neoliberalism. My disagreement with their conclusion is definitional and can be resolved by conceptual clarification that tries to stay close to Polanyi's original conceptualisation of embeddedness as something that requires a full-scale decommodification (Dale, 2010).

Both the mainstream EU studies literature and the critical IPE scholarship have helped in the revival of Polanyi's work. This thesis built on their existing efforts, all the while calling for a greater conceptual clarity. It has criticised a) the former for purging out Polanyi's normative critique in their functionalist usage of his double-movement

thesis, and b) the latter for their neglect of social protection and conceptual conflation between embeddedness and protection. Because ‘new economic thinking means reading old books’ this thesis found it necessary to go back to the original works of Karl Polanyi and look for insights that might elucidate the present predicament of the EU (Mark Thomas, cited in Krugman, 2012: 42).

6.3. Theoretical Framework

Given the fluidity in the way Polanyi’s theory has been invoked to describe the EU political economy, this thesis found a compelling need to investigate both Polanyi’s contribution to knowledge and the budding interdisciplinary Polanyian community that has clarified many problematic assumptions and biases in his writing. The thesis contribution to science is two-fold. Firstly, it proposed a novel Polanyian pathway of critical thinking about the EU that stands as alternative to the well-established Marxian and Gramscian critiques. Secondly, it engaged in theoretical examination of Polanyi’s work by tapping into the existing reservoir of Polanyian literature rather than merely using him in a catch-phrase manner.⁷² A full-scale turn to the Master is long overdue.

Polanyi’s legacy is many-fold (Dale, 2012). His anthropological exploration of the pre-modern societies led him to make a conceptual distinction between the market mechanism, trade and money. While the former is characterised by price-setting market system where production is governed by competition and the gain motive, trade and money predate the market pattern and can be governed by social norms of reciprocity and redistribution rather than the principle of exchange (Polanyi, 1977:

⁷² The Polanyian community includes: Lacher (1999; 2007), Dale (2010; 2012), Watson (2009; 2014a), Holmes (2012), Latham (1997), Krippner (2004), Lie (1991), Silver (1983), Streeck (2012a; 2012b) Birchfield (2005), Block (2003, 2012), Burawoy (2003; 2010), Cangiani (2003), Vail (2010), Gemini (2008), Ankarloo (2002), Inayatullah and Blaney (1999), Granovetter (1985).

134-149). Contrary to neoclassical economic thinking, Polanyi (1944) argued that the emergence of the market pattern was not inevitable, but was generated by an active state intervention (Block, 2003; Gemici, 2008). Public authorities administered the creation of the necessary preconditions for the capitalist production in that they sanctioned and regulated the commodification of land, labour and money (Ankarloo, 2002). Polanyi (1944) deconstructed the myth of the self-regulating market which a) located the emergence of the market in human's propensity to barter, and b) purported that the market is governed by its own invisible hand. Instead, Polanyi (1944) invites us to look at the active role played by the law and the state in securing the functioning of the markets that in the neoliberal era goes well beyond the minimal enforcement of property rights and contractual obligations.

One of Polanyi's most astute observations (1944: 71) is the fact that 'regulation and markets, in effect, grew up together'. Polanyi's (1944) thesis about the role of public authorities in the creation of the market society during *laissez-faire* capitalism invites us to ask similarly critical questions about the role of the state in the construction of the neoliberal regime. If *laissez-faire* capitalism was marked by the commodification of land, labour and money, the neoliberal era has expanded the horizon of capital accumulation. The state has enabled the extension of the market mechanism into previously decommodified domains. It has authorised the commodification of many unconventional commodities such as knowledge, public services, carbon, derivatives and social protection.

Besides his contribution to the debates on the emergence of the capitalist economy, Polanyi intervened in the theoretical debates in neoclassical economics on the basis of new anthropological evidence. Polanyi (1977) warned against the insufficiencies of

the formal understanding of the economy in neoclassical economics, which unjustifiably grants a central role to the abstract principle of scarcity that supposedly is the sole organising force of the economy. Unlike classical economists who postulate the scarcity principle in abstract terms, Polanyi (1977) was aware of its historical contingency and thus proposed a new way of conceptualising the economy in substantive manner (Dale, 2010). Polanyi (1977) saw the economic domain as centred on the issue of provisioning, whose specificities are determined by culture and not solely by nature (Champlin and Knoedler, 2004). The economy is not exclusively limited to economising, but it is an instituted process through which humans secure their livelihood by interacting with fellow humans and nature (Dale, 2010). Thus, it is more imperative today than ever to remind ourselves of Polanyi's critique of the flawed understanding of the economy, which during the neoliberal predicament continues to inform bad economic decisions.

Based on a close reading of Polanyi and the wider Polanyian scholarship this thesis proposed a new take on the established practice of using Polanyi's concept of embedded and disembedded as all-or-nothing phenomena, which is present in the works of both the mainstream and the critical IPE scholarship. Instead it advocated a conceptual shift that conceives the two notions in terms of tendencies, which reflects Polanyi's (1944) idea that *the embedding tendency is immanent to the disembedding one*. By doing so, this thesis avoided the pitfalls of the contradiction between the 'always embedded thesis' latent in Polanyi's works (Block, 2003) and the existence of a market society. By postulating the problems in terms of tendencies we can acknowledge that the economy is socially constrained, yet at the same time this does not preclude the ability of the market rationality to disturb the norms of solidarity (Streeck, 2012b; Watson, 2005; Dale, 2010).

This thesis examined the political economy of the EU through the dialectical interaction between the two tendencies. The disembedding and embedding tendencies are governed by the principles of *improvement* and *habitation* respectively. Polanyi (1944) used the former to account for the deliberate acts on the part of the public authorities that ensure the extension of the self-regulating market, while the latter refers to those measures which address the social and environmental calamity arising from the newly created market society (Dale, 2010). The evidence presented in this thesis showed that in the neoliberal era the principle of *habitation* has changed its essence because it relies on a new paradigm that uses the market to secure protection. Moreover, the existence of measures that secure socio-environmental protection does not translate invariably into a double-movement, which, Polanyi (1944) observed, happens only when society is forced to defend its livelihood from the exuberances of the market. Bienefeld (2007: 27) reminds us that it is illusory to believe in ‘the dream of enabling a ‘double movement’ to succeed without the world first having to be brought to its knees in a desperately deep and protracted political and economic crisis’. This clarification is necessary in light of the increasing scholarly interventions that proclaim the birth of the double-movement in the aftermath of the crisis without first attempting to understand what the double-movement entails.

6.4. Thesis Statement

The Polanyian gauge used to evaluate the EU political economy is displaying an acceleration of both the disembedding and the embedding tendencies, which have undergone a qualitative transformation since the time of Polanyi’s writing. The argument advanced in two steps: the first part considered the extension of the disembedding tendency, while the second juxtaposed the embedding tendency and examined their dialectical interaction. The examination of the disembedding tendency

was delimited to three policy fields: financial regulation, competition and education policies, which were chosen for analytical purposes given their varying institutional features. Notwithstanding their differences, this thesis extrapolated a common trend among them: the extension of the principle of improvement. The policy output across these fields is marked by a process of the extension of the market rationality.

The analysis of the competition policy shows how in the pursuit of competitiveness the EU has successfully pushed for the liberalisation of the public services (Wigger and Buch-Hansen, 2012; 2014; Akman and Kassim, 2010). Competition, rather than cooperation has been specified as the best way of allocating resources in our communities. While public provisioning has been delegitimised, the competitive market is being promoted as the new panacea for improving the cost efficiency of service delivery, which has been accomplished by job redundancies and translated into ever bigger profit margins for companies rather than more affordable utilities (Newbery and Pollitt, 1997; Zacune, 2013; Hay, 2012). Moreover, the attack on public monopoly has been happening against the backdrop of increasing market concentration via mergers (Buch-Hansen and Wigger, 2010) and convergence towards a shareholder corporate governance model that have disposed labour of its bargaining power (Horn, 2012; van Apeldoorn and Horn, 2007).

A similar trend of marketisation of social relations can be observed in the financial services liberalisation across Europe (Mügge, 2009; Grossman and Leblond, 2011; McKeen-Edwards, Porter and Roberge, 2004). The recent financial integration is secured by a) an institutional depoliticisation that consists of delegating decision-making powers to unelected regulatory, and b) a rule-based depoliticisation predicated on the spread of self-monitoring norms, which are maintained in the new Basel III

Accord that does little to change the practice of entrusting banks with their own internal assessment (Macartney, 2011; Major, 2012; Burnham, 2011). The sheer size and technicality of the financial operations are used as an excuse to endow banks with power to self-comply within a loosely defined regulatory framework. The growth of the financial sector, which has been the epicentre of the Great Recession, has been the other side of the coin of the privatised Keynesian regime predicated on a flawed growth model dependent on an ever-growing private debt that compensates for the diminished purchasing power of labour due to falling wages (Palley, 2012; Hay and Wincott, 2012). While the Great Recession has enabled the scaling up of the macro-prudential power at the EU level under the Single Supervisory Mechanism (Baker and Widmaier, 2014), little effort is made to change the finance-led accumulation model based on securitisation. Together with the monetary and the fiscal reforms the new macro-prudential regulation with its technocratic style of governance, which is the pinnacle of the disembedding tendency, have enabled the market to ‘capture the very politics that should restrain it’ (Streeck, 2012b: 317).

The operation of the principle of *improvement* has been observed in education policy which has been aligned with the competitiveness agenda. Soft-law legislative instruments are used to disseminate pan-European neoliberal subjects that are indispensable to the new project of the knowledge-based economy (Bache, 2006; Mitchell, 2006; Walkenhorst, 2008). The new education paradigm is introducing competitive relations into the knowledge production process. The knowledge-based economy has been invoked to justify the modernisation of education policy that will equip students with the ‘right entrepreneurial skill set’. The commodification of education has been identified in the very act of subordinating the intrinsic worth of education to that of its economic gains.

Among Polanyi's (1944) many insights was the one about the simultaneous occurrence of the disembedding and embedding tendencies. Keeping that in mind, this thesis attempted to challenge the structural bias in the critical scholarship towards an exclusive focus on the macroeconomic side of the EU political economy and instead proposed a comprehensive analysis that included a close examination of the socio-environmental paradigm in which the EU economy is embedded. To that end, this thesis juxtaposed the disembedding and the embedding tendencies. Rather than paying exclusive attention to the liberalising measures, this thesis investigated the social and the environmental policy fields, where we find measures that deal with the dislocations caused by market forces. The evidence presented in the thesis demonstrated that the intensification of the disembedding tendency is followed by a heightened commitment at the EU level to strengthen the social cohesion and environmental sustainability of the Union. The analysis of the two policy portfolios, which have different degrees of institutionalisation, corroborate Polanyi's conclusion that the protective measures are imminent to the disembedding ones.

This thesis' objective was not solely to bring to light the neglected instances of socio-environmental protection, but it attempted to appraise the novelty and nature of those measures. The most notable change captured by the thesis was the introduction of a new socio-environmental paradigm through which the market has become a site of social and environmental provisions. The new paradigm, rather than operating against the logic of the market, uses the market to secure protection, which, in turn, fundamentally redefines the *habitation* principle as conceptualised by Polanyi. Under the current paradigm, both the disembedding and the embedding tendency are characterised by a marketisation dynamic. The idea of taming the unrestrained profit seeking objective of the free market by social democratic principles has been

substituted by the idea of competitiveness, whereby the market pattern is no longer made to serve the goals of social wellbeing, but social wellbeing is dependent on the wellbeing of the market. The new paradigm leaves it to the equilibria of supply and demand and its institutional form - the price-setting market - to determine the livelihood of humanity.

Notwithstanding the great quantitative accomplishment on the part of the EU authorities in the social and environmental policy domains, this thesis provided a Polanyian critique of the quality of the content of its policies. The new socio-environmental measures do not re-embed the economy because they themselves spread the commodity form into previously unaffected domains. Both the modernisation of the social regime and the new market-based environmental instruments turn protection into an input in the production process. The monetisation of protection devalues the public purpose of social and environmental policy because it turns protection into a business matter.

This thesis argued that the new rationality which aligns economic, social and environmental objectives is problematic. For Polanyi (1944) the observed intensification of both the principle of *improvement* and the marketised *habitation* harbour a disruptive dialectic because they purport to achieve irreconcilable goals. Notwithstanding the existing practice of subordinating social and environmental concerns to the economic growth imperative, from a Polanyian (1944) standpoint, the problem is not the improper administration and policy application, but rather the very contradictory essence of striving to accomplish two mutually exclusive goals (Streeck, 2012b). The contradictory essence comes to the fore especially when the security itself within the new paradigm is administered increasingly via the

commodity form. The contradiction arises because the policy solutions try to resolve the differences between the two principles on the basis of a market growth *ad infinitum*.

After concluding that the evident surge in socio-environmental legislation does not truly decommodify the fictitious commodities which would be necessary for us to render the economy re-embedded, this thesis tried to point the conflict that the new paradigm engenders. Polanyi (1944) warned of the disruptive tension impelled when policies that further the market mechanism are coupled with interventionist measures that safeguard labour and land from the vicissitude of the self-regulating market. From Polanyian point of view the Commission's effort to create *uber*-competitive, yet inclusive and sustainable economy, is oxymoronic in nature. The same can be said about the flexicurity norm promoted under the European Employment Strategy backed by the European Structural Fund. No matter how much the Commission tries to synchronise the two tracks of *habitation* and *improvement*, if Polanyi was right, one can claim with a small margin of error that this undertaking is unsustainable and it would be a matter of time when the latent conflict is manifested in a crisis in which society will try to shield itself from the market forces. That will be the birth of the double-movement, contrary to the premature conclusions about its existence already. One might even venture a theory that just like Speenhamland Law, the current social and environmental legislation is something that extends the 'right to live', but at the same time it hurts humankind more than the *improvement* which it tries to counterbalance.

The market society has reached new heights which this thesis tried to problematise from a Polanyian standpoint. The newly created commodities, either through

privatisation, as is the case with public utilities or through public decree as is the case with the carbon market, are part of the neoliberal capital expansion process whereby capital is given more profit-making opportunities (Overbeek, 2012). The current response to the social and environmental dislocations does not consist of solving the problem of overaccumulation that created them in the first place. A new growth paradigm is completely absent from the policy repertoire even though political economists like Hay and Wincott (2012), Palley (2012) and Gamble (2009) have identified the Great Recession as a crisis of growth rather than as a crisis of debt as purported by policy-makers. Instead of proposing a new growth strategy, the policy makers try to embed the EU economy in a specific socio-environmental paradigm which is itself commodified. Although a balance between the institutions that commodify and those that protect are essential part of capitalism, however there is 'a historical bias under capitalist institutions and dispositions for markets to expand at the expense of nonmarkets' (Streeck, 2009: 6).

Unlike the voices who assert that the swinging of the pendulum from disembedded to embedded capitalism is upon us (Gills, 2009; Caporaso and Tarrow, 2009; Copeland, 2009; Peter Evans, 2008), this thesis found little evidence that the crisis has heralded an end to the market society. Polanyi's (1944) double-movement is predicated on contingent forces rather than automatic oscillations, thus we should avoid imputing transformative potential to the crisis when no countermovement has coalesced (Dale, 2012). Notwithstanding the short return to direct state intervention in the name of saving the banks, the neoliberal institutional separation of the market from societal regulation has remained intact because the state made public funds available without any strings attached, i.e. without reserving its right to publicly set the price of credit (Watson, 2009). If anything, the crisis has further deepened the monetary and fiscal

integration with its distinct neoliberal design (Blyth, 2013; Lapavistas *et al.*, 2012; Gamble, 2009; Krugman, 2012; Schmidt and Thatcher, 2013; Hay and Wincott, 2012). The Great Recession brought serious legitimacy problems to the monetary orthodoxy, but to no avail. The optimistic expectations about its demise proved to be unwarranted. The neoliberal restructuring continues unabated. The economic crisis has failed to bring about fundamental changes to the political economy. Let us hope that Walter Benjamin is wrong in his assertion that behind every rise of fascism there is a failed revolution (Žižek, 2009). It remains to be seen if the recent rise of the far right across Europe invalidates his assertion.

Notwithstanding the popular interpretation of the recent crisis as something that shattered the foundation of neoliberalism, '[F]or it to be seen as a crisis of neoliberalism would require that neoliberalism be held responsible for bringing it about' (Hay, 2010: 466). In hindsight there is a solid evidence to warrant the conclusion that the first phase of the economic crisis was marked by political obstinacy that further constitutionalised the neoliberal creed. Not only the adopted measures, but also the politics of inaction have reaffirmed the non-death status of the idea of the self-regulating market. Leo Tolstoy (*War and Peace*, 1805: 2800) said 'history, like a deaf man, answers questions no one has asked'. Though history is often invoked to justify certain policy course, its reading tends to be selective and ignored by policy makers and economists alike. Tolstoy's qualification of history is particularly applicable to the current predicament where economic decisions are barely informed by historical studies of the economy. The richness of the empirical investigations notwithstanding, economic decision-making continues to be ridden by myths, such as the fiscal-profligacy myth, and guided by mathematical modelling that ignores the social underpinnings of economic life as seen in the proposed and adopted

financial reforms. The economic policy domain is guided by what Watson (2014b: 38) has christened an ‘uneconomic economics’, whose ‘explanation of the internal market dynamics was based on what is known mathematically about the properties of statistical distribution functions and not what is known economically about the social basis of functioning market environments’.

The important story that the unfolding of the disembedding and embedding tendencies and the transformations they engender tell is not the shifting of boundaries or the pluralisation of authority, which are relevant conclusions about the EU polity, but the redefinition of the relation between the functional network (the economy) and the lifeworld (the society). The current EU predicament is characterised by two conflicting dynamics that pull in opposite direction and aim at securing two irreconcilable purposes. However at the same time both tendencies are converging towards an increasing marketisation. The main contribution of the research pursuit rests in its attempt to analyse the dialectical interplay between the two tendencies.

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DG Climate Action:

Mr. Alex Radway - Policy Officer. Interview at 9:40 am on the 21/09/2012 in Brussels, Belgium.

DG Employment, Social Affairs and Inclusion:

Ms. Maria Ilies - Policy Analyst. Interview at 10 am on the 20/09/2012 in Brussels, Belgium. In addition, I had informal exchanges with Ms. Ilies during the 2nd Convention of the European Platform Against Poverty hosted by the Commission from 5-7 December 2012.

Mr. Michiel Berrevoets - Seconded National Expert and policy officer. Interview at 10:30 am on the 20/09/12 in Brussels, Belgium. In addition, I had informal exchanges with Mr. Berrevoets during the 2nd Convention of the European Platform Against Poverty hosted by the Commission from 5-7 December 2012.

European-Anti Poverty Network (EAPN):

Mrs. Sian Jones - policy coordinator. Interview on the 07/03/2011 in the EAPN offices in Brussels, Belgium. In addition, I had informal exchanges with Mrs. Jones during the 2nd Convention of the European Platform Against Poverty hosted by the Commission from 5-7 December 2012.

Mr. Fintan Farrell – former director of EAPN. I had informal exchanges with Mr. Farrell during the 2nd Convention of the European Platform Against Poverty hosted by the Commission from 5-7 December 2012.

Relevant Involvements:

I took part as an independent researcher in the evaluation of the Second Convention of the European Platform Against Poverty and Social Exclusion, one of the seven Flagship Initiatives that are part of the new 2020 Strategy. The Convention entitled *Investing in Social Europe* was organised by the DG Employment, Social Affairs, and Inclusion and featured many prominent EU public officials such as Herman van Rompuy, José Manuel Barroso, Isabelle Duran, Lázló Andor, Tonio Borg, Conny Reuter, member states' labour and employment Ministers, representatives from the EU-wide civil society organisations and national civil servants.

In addition, I have participated at the following conferences in Brussels:

- a) The European Economic and Social Committee's conference on the 22nd of February 2011,
- b) The Eurochild's conference on the 24th of May 2011 at the European Parliament,
- c) The Spinelli Group's conference on the 15th of June 2011 at the European Parliament.